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World Business Newspaper http://www.FT.com MONDAY SEPTEMBER 9 1996

Power demands may halt tunnel sleeper trains

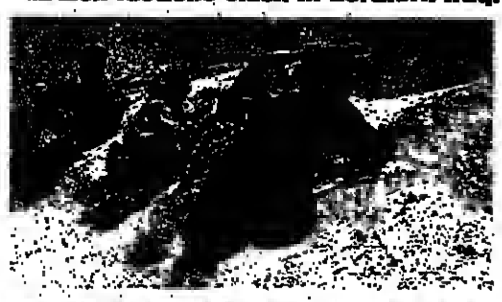
Plans for overnight sleeper trains through the Channel tunnel are being reviewed because of fears that the "hotels on wheels" could put a heavy power demand on old UK track equipment. "If everyone went to the loo or had a shower at the same time the train would stop," said Adam Mills, chief executive of London & Continental Railways, which took over Eurostar services in June, Page 8; Lex, Page 18; Eurotunnel's losses at £350m, Page 20

Germany balks at EU contribution: Germany is to press for a ceiling on its net contributions to the European Union budget and is already working on a strategy to reduce the payments. Page 3

French urged to prepare for Emu: Big French companies risk serious problems in 1999 unless they speed up their preparations for the planned European single currency, a study warns. Page 18

Ex-minister held: Former Belgian regional minister Alain Van der Biest was arrested in connection with the murder of a Belgian politician in 1991. Page 2

Kurdish factions clash in northern Iraq:



Iraqi-backed Kurdistan Democratic party guerrillas (pictured above) took the towns of Degala and Koi Sanjaq in northern Iraq, driving the fighters of the rival Patriotic Union of Kurdistan closer to the Iranian border. US officials warned Iraqi president Saddam Hussein he would "pay the price" if Iraqi government forces were involved but said they had no evidence of a direct Iraqi role in the fighting. Page 18; Envoys confirm massacre, Page 4

US stock exchange campaign: Leading US stock exchanges have given more than $500,000 to back a campaign against a Californian initiative to make it easier to sue for securities fraud. One provision would allow shareholders to make a fraud claim if a company's share price dropped suddenly, raising fears that this could leave the volatile high-tech sector prey to constant legal harassment. Page 18

Russians pull back: A Russian withdrawal began pulling out of Chechnya, the first step with draw under a peace deal signed with the rebels by Russian security chief Alexander Lebed. Page 2

Top Fox man quits: News Corporation's Fox TV network named Peter Roth as head of entertainment after John Matoian quit after only two years. Page 19

Turkish Cypriot soldier killed: A soldier from the Turkish side of the divided island of Cyprus was shot dead near the UN-patrolled buffer zone separating Greek and Turkish Cypriots, British military officials said. Page 3

Liberians found starving: Aid workers in Liberia found hundreds of severely malnourished children, women and old people in the western town of Tubmanburg, which has been cut off by faction fighting since February.

Soldier shot dead: A Ukrainian soldier serving in Bosnia with the Nato-led peace force was shot dead while guarding a Sarajevo warehouse filled with voting materials for next weekend's elections.

Motor racing: Germany's double world champion Michael Schumacher won the Italian grand prix at Monza for Ferrari. Britain's Damon Hill spun off the track on the sixth lap.

European Monetary System: The D-Mark slipped two places last week on the EMS grid, overtaken by the Portuguese escudo and Irish punt. The French franc was again at the floor of the grid. Currencies, Page 25

The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guilder which move in a 2.25 per cent band.

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Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.75	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
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Cautious approach as divisions over US military action in Iraq are underlined

EU may delay move against US trade law

By Lionel Barber in Tralee, Ireland, and James Blitz in London

The European Union yesterday signalled it is likely to delay retaliation over US trade laws against Cuba, Iran, and Libya until after the US presidential election on November 5.

Despite unanimous condemnation of the US legislation at a meeting of EU foreign ministers in Tralee, Ireland, Mr Jacques Santer, president of the European Commission, said it would be "wise" to wait before enforcing counter-measures or lodging an appeal to the World Trade Organisation.

The cautious EU approach on trade legislation set the tone for a meeting which underlined divisions between Britain and France over US military action in Iraq and the limits to a genuine common EU foreign policy. Mr Dick Spring, the Irish chairman of the talks, announced an agreement to hold an EU summit on October 5 to give fresh impetus to the EU's intergovernmental conference (IGC) to review the Maastricht treaty.

The summit will take place three days before Britain's ruling Conservative party begins its annual conference. Mr Malcolm Rifkind, the UK foreign secretary, questioned the need for the summit. "Circumstances may prove that my caution is unnecessary. But I start off with just a tinge of uncertainty as to whether this meeting will prove to have been entirely necessary."

Eurosceptic Tory MPs said the summit would test the willingness of Mr John Major, the UK prime minister, to resist moves towards European integration.

"If there is an embarrassment over the timing of the summit it is self-inflicted," said Mr Bill Cash, Tory MP for Stafford. "The government granted too much at Maastricht and this has encouraged the other member states to press ahead with their plans for a single currency and common foreign policy."

Pressure for the mini-summit was led by France. But the Irish presidency made clear its priority was to finalise a draft treaty text by the end of November in time for the full EU summit in Dublin in mid-December.

Mr Santer, concerned that ministers may be lowering their ambitions for the IGC, called for a political breakthrough at the mini-summit.

The EU's difficulties over how to respond to the US trade laws centre on how to apply EU blocking statutes in all 15 member states. There is also reluctance in some quarters to escalate a transatlantic dispute over Cuba, a peripheral trading partner for most countries.

Brussels appears to be pinning hopes on a Democrat victory in the congressional elections, overturning the Republican majority in the House and Senate which sponsored the legislation and giving President Bill Clinton more room to manoeuvre.

The Helms-Burton and D'Amato laws penalise foreign companies doing certain business with Cuba, Iran and Libya – branded outlaw states for supporting terrorism.

Mr Spring said there was "absolute opposition" to the US trade laws, but said the EU shared Washington's goals of fostering democracy and a market economy in Cuba and combating terrorism.

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Irish foreign minister Dick Spring (left) chats with his Italian and Portuguese counterparts Lamberto Dini (centre) and Jaime Gama during a break at the meeting of European Union foreign ministers being hosted by Ireland in Tralee. Picture: Reuter

China to let foreign banks trade in local currency

By Tony Walker in Beijing

China expects to issue "within weeks" guidelines allowing foreign banks to engage in local currency business. But their activities would initially be restricted to Shanghai's Pudong development zone.

Mr Di Weiping, deputy director of the foreign financial institutions department of the People's Bank, said just a few banks would be selected for a pilot programme in Pudong.

People's Bank, China's central bank, had received expressions of interest from "several dozen" banks, but preference would be given to those which were "longest-established" in Shanghai.

Mr Di said a decision was likely by the end of the year on the successful applicants. He also indicated the experiment might be extended to the whole of Shanghai and to other special economic zones.

Foreign bank branches have long been pressing for permission to engage in local currency business, arguing they should be allowed to compete directly with Chinese banks.

But the authorities have moved slowly to sanction such a step because of concerns about inadequate regulatory resources at the People's Bank. They have also responded to pressure from Chinese banks which fear competition.

But Mr Di said Chinese financial institutions "are getting used to competition" after 16 or 17 years of the opening up of the Chinese economy. Clearance for a handful of foreign banks to engage in yuan business would not pose a serious threat to local banks.

To trade in local currency, banks would have to have been established in China for at least three years, to have been profitable for the past

Continued on Page 18

Morgan investors may get further bailout

By Nicholas Denton and Roger Taylor in London

Deutsche Bank, the German parent of Morgan Grenfell Asset Management, may extend a new life raft to the 90,000 investors in three troubled funds suspended last week after breaches of investment rules were discovered.

As the group considered its strategy for rescuing the funds, it appointed specialist fraud investigators to examine the personal finances of Mr Peter Young, the fund manager at the centre of the affair.

But Mr Young's solicitors, Peters & Peters, said: "There is no allegation of criminality in the proceedings which have been served on Peter Young and there would be no grounds whatsoever for any such allegation."

Deutsche Bank is expected to demand resignations from Mr Young's managers. But Mr Keith Percy, managing director of MGAM, said yesterday: "I have not offered my resignation and I am not proposing to do so."

Deutsche Bank, Germany's largest and most powerful bank, is considering intervention into the market for the three funds if investors continue to redeem their holdings and the cushion of cash in the funds is exhausted.

Supporting the market would further raise the cost of the affair to Deutsche Bank which has already injected £180m ($280m) into the three funds and said it was ready to pay whatever compensation to investors the Investment Management Regulatory Organisation determines. The combined market value of the three funds is about £1.1bn.

Morgan Grenfell said yesterday that buying units from investors who wished to sell was just one of the options it was considering. "It is too early to say what the next steps will be," Morgan Grenfell said. "There is still enough cash left in the funds. We will meet our liabilities."

But, if investors continue to withdraw their money at the rate of Thursday and Friday, the cash in the fund will run out sometime tomorrow. After last week's bailout by Deutsche Bank, the three funds had £300m in cash. By Friday evening, investors had cashed in £193m worth of their holdings.

Deutsche Bank is determined to avoid a situation in which the three funds have to liquidate their portfolios to meet withdrawals. The portfolios contain many obscure technology stocks which could only be sold at a discount.

Morgan Grenfell's specialist fraud investigators – accountants Ernst & Young and solicitors Slaughter & May – are trying to untangle the web of unregistered Luxembourg companies which Mr Young set up to conceal his investments. Attention is focused on Mr Young's bank account with Morgan Grenfell Nominees in Jersey, a Morgan Grenfell subsidiary, and his connection to Russ Oil & Technology, an unlisted Luxembourg-registered company.

Lex, Page 18

Japanese island backs call for cut in US presence

By William Dawkins in Tokyo

A majority of the people of Okinawa yesterday backed a referendum call for the reduction of US military bases on the southern Japanese island.

The result, although widely expected and not legally binding, casts a political shadow over the largest US defence installation in east Asia and one seen by defence planners on both sides of the Pacific as vital to maintaining the security balance in east Asia. It is also likely to increase tension within Japan's ruling coalition and lead to an early general election.

Of the islanders who voted in the referendum on the US bases, 89.5 per cent supported a cut. But the turnout was a modest 59.5 per cent of Okinawa's 910,000 voters, well short of the 70 per cent sought by anti-base campaigners.

The low turnout was said by political experts to weaken the backing sought by Mr Masahide Ota, the Okinawa governor, to rid the island completely of US bases.

The poll will be read by the central government as a sign that it need not change the agreement it signed with the US last April, under which a marine helicopter base is to be closed but the number of personnel on the island and its defence capability are to be maintained.

The vote highlights cracks in Japan's pro-US consensus, illustrated by the mainland's reluctance to take on facilities being moved from Okinawa. The Tokyo government is considering regional subsidies and tax breaks to soothe the islanders' objections.

Yesterday's result also sets the Liberal Democratic party, dominant member of the three-party ruling coalition, at loggerheads with its second-largest partner, the Social Democratic party, which strongly supports the Okinawans.

The long battle between the Okinawan and Tokyo governments has become the biggest test yet of the credibility of the alliance of the conservative LDP and its two centre-left partners.

Mr Ryutaro Hashimoto, the prime minister, is to meet Mr Ota tomorrow to discuss the implications of the result. Mr Hashimoto has indicated that he aims to set a date for a

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Russia declares inflation victory

By John Thornhill and Graham Bowley in Moscow

Mr Sergei Dubinin, Russia's central bank governor, has declared victory in the country's protracted war with inflation. The economy had entered an era of relative price stability which would lead to sustained growth, he said.

"We have achieved a normal financial stabilisation which western specialists would describe as orthodox," be said in an interview.

"It is true that it has taken us a longer time to achieve than in most classical examples. We have spent three years on it rather than just one. But this is because we did not have a fully orthodox economy and our anti-inflationary programme went hand in hand with a structural reform of the economy," he said.

After more than three years of runaway inflation, prices in the Russian economy fell for the first time in August by 0.2 per cent, thanks to the central bank's tough monetary squeeze.

Mr Dubinin said inflation had been 15 per cent in the first half of the year and was likely to be 20 per cent for the whole year. That compares with an annual rate of 2,318 per cent in 1992 and 131 per cent last year.

Just two years ago, Russian industrialists were bemoaning the scourge of inflation and the seemingly inexorabls decline of the rouble, whicb lost a fifth of its value on Black Tuesday in autumn 1994.

The central bank, then headed by Mr Victor Gerashchenko, was widely blamed for failing to appreciate the relationship between money creation and inflation. Mr Jeffrey Sachs, the Harvard university economist, called Mr Gerashchenko the "worst central banker in the world".

But in a remarkable turnaround, Russia's bankers now accuse the central bank of running too tight a monetary policy, complaining about the end of easy money. The central hank has taken great strides in establishing the rouble as a credible currency.

This has all come as something of a personal vindication for Mr Dubinin. in 1994, President Boris Yeltsin sacked him as acting finance minister in the wake of Black Tuesday, blaming him, however unfairly, for the rouble's collapse.

But at the end of last year, Mr Dubinin was restored to favour by being appointed central bank governor and bas created a strong team of like-minded economists who have played an important role in shaping Russian economic policy.

His fierca adherence to anti-inflationary policies and determination to defend the value of the currency could have been taken out of the Bundesbank's rule book.

This tougb monetary approach first pursued by Mrs Tatyana Paramonova and then by Mr Dubinin has been mucb appreciated by the International Monetary Fund, which has backed Russia's stabilisation programme with a $10.2bn loan.

But the bank is still a relatively immature institution and its lack of experience is evident in many fields of activity. Its greatest challenges will be to help many of Russia's banks manage their way out of their financial straits and to lower interest rates, which remain cripplingly high.

Mr Dubinin estimates that 15 per cent of Russia's 2,150 banks make losses.

In the interview, he tried to damp down fears of a banking crisis, suggesting repeated rumours of a pending collapse could become a self-fulfilling prophecy.

He said casualties would continue among Russia's banks as they adjusted to the low inflation environment but he dismissed the possibility of a broader failure of the banking system.

Mr Dubinin said Russia would return to the international capital markets by launching a eurobond within the next three months, and was currently talking to credit rating agencies. It is believed Russia is seeking a credit rating of between B+ and BB-, which would put the country on par with Brazil and Romania but would be a sub-investment-grade rating.

Market sources suggested Russia would initially seek to raise between $300m and $500m in mid-November. J.P. Morgan and SBC Warburg have been retained to lead-manage the launch.

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Troops begin to leave Chechnya

By Matthew Kaminski in Moscow and Michael Lindemann in Bonn

Rnssian troops began to leave Chechnya yesterday after a farewell ceremony which bnoyed hopes that the 21-month conflict may be coming to an end.

Bnt the fragile peace is still threatened by political opposition in Moscow – from top officers and politicians who see the pull-out as a bumiliating retreat for Russia.

Five hundred troops of the 133rd battalion, which participated in the first attack on Grozny, the Chechen capital, in 1994, were returning to their bases near St Petersburg last night nnder a peace deal signed with Chechen separatist fighters in August.

Mr Alexander Lebed, the national security chief, may return to the region tomorrow to oversee the implementation of the fragile deal he brokered after Chechen fighters retook Grozny in a surprise attack.


A Russian soldier on patrol outside the demolished presidential palace in Grozny Reuter

Gen Anatoly Kulikov, the minister of the interior, who bas been at loggerheads with Mr Lebed since the security chief demanded his ouster a few weeks ago, yesterday launched a veiled attack on the peace process.

"There'e been enougb humiliation of the military before the whole world... calling them drunkards and so forth," Mr Kulikov said.

The fate of the accord also hinges largely on the decisions of President Boris Yeltsin, who is to undergo heart surgery this month.

Mr Yeltsin on Saturday met Mr Helmut Kohl, tha German chancellor, who has emerged as one of the Kremlin's most stalwart allies.

The German leader later assured reporters that Mr Yaltsin was "fully active througbout the discussions". Mr Kohl is expected to offer a mora detailed report in conversations with US President Bill Clinton, President Jacques Chirac of France and other western heads of government.

He is also expected to discuss how exactly Russia can be persnaded to agree to the eastern enlargement of Nato, a subject which has so far met steadfast Russian resistance.

During his visit to Moscow Mr Kohl emphasised that Russia did not have a right to veto Nato's expansion – which is expected to include snch countries as Poland, Hungary and the Czech Repnblic – but there was no sign of a breakthrough on the sensitive question.

Three old foes go on manoeuvres together

By Bruce Clark, recently in Drawsko, Poland

General Oleksandr Kuzmuk, a swashbuckling figure in combat dress and a luxuriant black moustache, beamed with schoolboy delight when he was invited to be the first Ukrainian defence minister to drive a British Challenger tank.

"The faster you go, the fewer the potholes," the career soldier whooped as he boarded the 60-ton machine – about whose workings he was very well informed – and surveyed the Polish countryside where Britain's 7th armoured brigade is conducting its first full exercise since the Gulf war.

The new enthusiasms of this former Soviet tank commander were among the stranger side-effects of the war games which began last week in central Europe.

Mr Nicholas Soames, the British armed forces minister, joined Gen Kuzmuk and Mr Stanislaw Dobrzanski, the Polish defence minister, in attending the manoeuvres and proclaiming one of Europe's lesser known security partnerships.

After watching a giant UK exercise in Poland, aimed at practising for high-intensity war, and a small peace-keeping drill in Ukraine, the ministers announced military co-operation linking London, Warsaw and Kiev.

In practical terms, this means pooling skills in such areas as logistics, field medicine and peace-keeping doctrine. The three countries agreed to practise parachuting in Ukraine. More important, Gen Kuzmuk offered to host an exercise involving UK aircraft and Ukraine's Soviet-made air defences.

On the surface, the meeting was longer on banter than substance. Untouched by faddish western ideas on civilian control of the military, Gen Kuzmuk was scathing about the fact that his fellow ministers were civilians – and genially offered to promote them both to rank of sergeant.

But behind all the bonhomie, there is a keen strategic concern which is shared by all partners in this unlikely triangle: the need to avoid sharp dividing lines in the security order that is emerging in post-cold war Europe.

The border between Poland, which is confident of joining Nato, and Ukraine, which has made it clear that it will not join any military bloc, could become one of Europe's new fault lines unless Kiev and Warsaw husband their ties.

To counter this danger, Ukraine has pursued the closest possible ties with Nato short of full membership. Ironically, alliance officials say, Nato's partnership with Kiev has come to resemble the "special relationship" which the alliance has tried unsuccessfully to construct with Russia.

But Ukraine may still be at a disadvantage if Poland leaps ahead to become a full member of the western alliance – and thus gains full access to Nato's infrastructure, planning system, political consultations and secrets.

Pressed last week to clarify his country's strategic orientation, Gen Kuzmuk replied with a characteristic swagger: "We seek partners everywhere, to our north, to our east and to our west – but we rely only on ourselves."

Former Belgian minister arrested in murder inquiry

By Neil Buckley in Brussels

A former Belgian minister was arrested yesterday in connection with the murder in 1991 of a former Socialist deputy prime minister.

The five-year investigation of the death of Mr André Cools had provoked Belgium's biggest political scandal by uncovering three fraud cases, including the Agusta bribery case, which led to the resignation of four ministers and of the Belgian secretary-general of Nato, Mr Willy Claes.

Mr Alain Van der Biest, former Socialist interior minister in the French-speaking region of Wallonia, was arrested yesterday in Liège in connection with Mr Cools' murdsr and tbe attempted murder of Mr Cools' girlfriend, Ms Marie-Hélène Joiret.

His detention followed Friday'a arrest on similar charges of four others: Mr Richard Taxqnet, Mr Van der Biest's former private secretary; and three Liège-based Italians, Mr Carlo Todarello – Mr Taxquet's uncle – Mr Domenico "Mimo" Castellino, and Mr Cosimo "Simon" Salazzo.

An international arrest warrant was also issued on Friday for Mr Pino di Mauro, Mr Van der Biest's former driver, who is abroad.

Justice officials yesterday denied earlier suggestions of a link between the Cools arrests and a three-week-old paedophile murder case which has shocked Belgium. But it is thought that the paedophile case, which has uncovered a criminal network involved in child pornography and in trafficking stolen cars, may have provided new leads.

The Liège judicial authorities said Friday's arrests resulted mainly from new information discovered by detectives in June.

Police believe the motive for Mr Cools' killing may have been his attempt to remove Mr Van der Biest in an anti-corruption drive.

Mr Van der Biest continued to deny any involvement with the murder through his lawyer yesterday.

Dateline, Page 9

Germany to seek ceiling for contributions to EU

By Peter Norman in Bonn

Germany, long the paymaster of the European Union, is to press for a ceiling on its net contributions to the EU budget, under plans being drafted in the Bonn finance ministry.

Although a restructuring of EU finances is not due until 1999, ministry officials are already working out a comprehensive strategy which would cut Germany's net contribution to the EU budget and end the present system of EU budget rebates for Britain alone.

Germany's EU budget contribntions have become a sensitive issue as austerity has begun to bite at home. Although Germany has the biggest economy in Europe, its takeover of the former communist east Germany means it is uo longer among the richest. In terms of gross domestic product per head, it ranks sixth of the 15 EU member states.

Bonn finances about 30 per cent of the EU bndget in gross terms. Its net contribution – gross payments less flows of EU cash back to Germany – is about 70 per cent, amounting to more than Ecu10bn ($12.7bn) a year, or about 0.6 per cent of GDP. It is more than twice the combined payments of Britain, France, the Netherlands and Italy, the EU's other net contributors.

The Bonn finance ministry wants to cap member states' net contributions at certain percentages of GDP. These, eo far unspecifiad, would reflect different levels of national wealth. Any contribntions above the limits would be shared out and paid by other member states. Bonn has no plans to cut gross payments.

Such a mechanism would hit Luxembourg, Belgium and Denmark, which are net beneficiaries from the EU budget and have higher per capita GDPs than Germany. France, a small uet contributor and the fifth richest country, could also have to pay more.

Ths German plan would involve difficult negotiations, especially with Britain, which won its rebate in the 1980s after furious arguments between the former prime minister, Mrs Margaret Thatcher, and other EU leaders.

However, writing recently in the magazine Integration, Mr Jürgen Stark, the state secretary in the finance ministry, claimed that decisions taken by the European Council at its June 1984 summit in Fontainebleau entitled other member states to benefit from mechanisms correcting EU budget contributions.

Other aspects of the ministry's reform strategy could appeal to the UK. Germany wants to impose strict discipline on EU outlays up to 1999 and, with Britain, has already made s start by forcing cuts in the EU draft budget for 1997.

It wants to extend the already agreed ceiling for EU revenues of 1.27 per cent of EU GDP beyond the present limit of 1999. Mr Waigel's ministry will also press for more restrictive use of the EU's regional, social and structural funds. It wants to encourage member states to borrow more from the European Investment Bank rather than rely on EU transfers to finance development. Bonn believes more credit-based finance would make it be easier to combat EU frauds.

Bonn officials hope that fairer EU budget contributions would exert downward pressure on agricultural prices. The Bonn driva to reform the budget could affect the terms of EU entry for the former communist states of eastern Europe. Germany could be expected to call for lengthy transition periods for uew members, partly to limit the costs that would have to be carried by the EU's existing 15 states.

Mr Theo Waigel, Germany's finance minister, yesterday warned that Germany's 1996 budget deficit could rise to almost DM70bn ($47.2bn), raising further questions about how Germany will meet the Maastricht criteria for a single currency, Michael Lindemann writes from Bonn.

He told the weekly magazine Focus that unexpectedly slow economic growth and rising unemployment meant the deficit was likely to be bigger than the DM59.9bn originally planned.

Euro will not be easy money

A French study predicts fiendishly complex transition period, reports Gillian Tett

If any European politicians thought switching to a single currency would be simple, a 56-page French government-backed report may change their minds. It provides a graphic – and unnerving – account of the problems the planned currency timetable will create for European companies.

The switch, the report suggests, is likely to create a fiendishly complex currency picture after 1999. This could pose significant problems for smaller suppliers and customers, particularly if they do not plan for it.

The report is one of the first of its kind. The fact that it has been conducted at all is a testament to the close co-ordination – and *dirigiste* instincts – that mark the French government's preparations for European monetary union.

The National Credit Council, which drew up the report, is jointly sponsored by the French finance ministry and Banque de France. Its findings, drawn from extensivs interviews with 20 large French companies, were discussed with the French employers' group, the Patronat.

The main issue for companies is the three-year transition period drawn up by EU heads of government. In Madrid last year, they decided that when the euro, the single currency, was introduced in 1999, it would initially exist only as a unit of account. Only in 2002, when euro notes and coins are introduced, will national currencies disappear.

For the transition, national currencies will continue to be used – albeit at irrevocably fixed exchange rates.

In theory, nobody can be either compelled to use the euro, or stopped from doing so, during this period. European governments hope allowing companies three years to change will create an orderly transition.

In practice the ambiguity threatens to create problems. For example, France plans to change its financial markets over to the euro in 1999, but retailers and the pnblic sector will be working primarily with francs until 2002.

This will cause problems for many companies, if they are asked to pay suppliers in euros while their customers are paying them in francs.

Most large companies, the report says, oppose using both simultaneously. "There is almost unanimous opposition to the idea of dual accounting between 1999 and 2002," it warns.

Some companies, it notes, mainly the largest exporters, have already decided to deal with the issue by using the euro as quickly as possible. But they will still need to pay their employees in francs.

And they face another difficulty: the French governmant has not indicated whether companies can file accounts or pay taxes in euros before 2002.

And many companies remain "paradoxically" vague about how they will manage intra-group payments – let alone business with suppliers or customers who might be accounting in a different unit, it adds.

Large companies may not find it too difficult to cope with two currencies if they have well developed IT systems and are used to coping with several currencies.

The real victims could be smaller groups, particularly if larger customers or suppliers move rapidly to the euro. The report points out that most "large companies have not yet given any consideration to their links with small and medium ones".

Mr Jacques Creyssel, economic director of the Patronat, says: "It is very important to protect the small companies from the financial pressure from the large companies."

Mr Banoit Jolivet, president of tha National Credit Council, says most small companies are still ignorant of the issues. Even among the larger ones, understanding is patchy: although many have established working groups to study Emu, few have yet involved real business decision makers.

French officials insist that this should change soon. But if it does, this in itself may have intereating consequences.

Several French companies, such as Rhône-Poulenc, are already calling for s reduction in the transition period. And as more companies wake up to the logistics of the change-over, these corporate pleas could swell.

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French parties split over PR

By Andrew Jack in Paris

Proposals by the French government to consider changing the method of electing France's National Assembly – the lower house of parliament – in the 1998 national elections triggered deep divisions over the weekend between members of the ruling centre-right political parties as well as the country's opposition.

Mr Alain Juppé, the prime minister, surprised France at the end of last week when he announced that he was considering "a dose of proportional representation" for the assembly. The senate, the upper chamber, is already partly elected by PR.

Both Mr François Léotard, leader of the UDF party, which is part of the ruling majority, and Mr François Bayrou, the deputy head, expressed their reservations during the party's conference over the weekend.

But the potential change to the majority voting system in the National Assembly was backed by two probable beneficiaries – the extreme right-wing National Front party and Mr Robert Hue, the Communist leader.

Mr Juppé's comments have dominated the headlines since and distracted attention from the package of tax cuts he unveiled in an effort to boost the country's flagging economy.

While clearly preferring to discuss his tax measures, Mr Juppé confirmed in an interview in Saturday's Le Figaro newspaper that it was "perhaps" justified to re-open a debate about the French electoral system.

He said he wanted a voting system which permitted the creation of a clear ruling party in power, while "as a Gaullist" ensuring that minority groups had a voice. The senate system consists of "first-past-the-post" majority voting, but with proportional representation in the 14 most densely populated departments.

The proposals raised fears by many of a return to the situation in 1986, when the Socialist president, François Mitterrand, instigated proportional representation to divide his right-wing opponents, opening the way for the National Front to take seats in the assembly.

According to Le Monde, Mr Juppé's renewed interest in modifications to the existing electoral system follows a report by Mr Charles Pasqua, the former interior minister, analysing the likely results of the 1998 elections.

Projections by the newspaper based on recent opinion polls suggest that under the existing majority-voting system, the opposition Socialists would gain control of the National Assembly, while with proportional representation they would lose, with the National Front gaining up to 35 seats and the ecologists three.

Soldier shot dead in Cyprus

A Turkish Cypriot soldier was killed and another seriously wounded yesterday when shots were fired at their post near the UN-patrolled buffer zone that separates Greek and Turkish Cypriots, officials said, Reuter reports from Nicosia.

It was not immediately clear who was responsible for the shooting but Turkish Cypriots and Turkey blamed Greek Cypriot soldiers and warned that the incident would heighten tension and hamper efforts to resolva the Cyprus problem.

"The guns used are similar to tha guns used by the Greek [Cypriot] police and the military," Mrs Tansu Çiller, the Turkish foreign minister, said.

The Cyprus government categorically denied that Greek Cypriot forces or police were involved in the incident.

There were fears that tha incident was related to the killing of two Greek Cypriot men during anti-Turkish demonstrations on the demarcation line last month.

The Cyprus government spokesman, Mr Yiannakis Cassoulides, said police had no reports about shots from the "free areas to the Turkish-occupied areas" and described the incident as "an act of Turkish provocation", implying that Turks had killed one of their own men.

Simitis calls for sacrifices

Greece's Socialist prime minister, Mr Costas Simitis, seeking re-election on September 22, said yesterday that the country must make sacrifices to stabilise its ailing economy, Reuter reports from Salonika.

Mr Simitis has been waging a tough battle against the conservative opposition leader, Mr Miltiades Evert, who is promising low-income voters and farmers bold increases in salaries, pensions and services after a decade of austerity.

"Yes, there are Greeks who live beyond their means, who take advantage of their position [in the public sector], who don't participate in the needed sacrifices," he said in Salonika.

He said he would rein in the black economy, estimated at a third of gross domestic product, and restructure the public sector, where hirings will be limited.

His targets include slashing inflation by at least two percentage points next year and boosting growth so that Greece meets targets for European monetary union.

Greece is plagued by high inflation, running at 8.5 per cent year-on-year in August, and a government deficit of 9 per cent of GDP in 1995. The Emu target is for a deficit of 3 per cent of GDP and inflation about two points above the three best performing EU members.

Fallout from US strike on Iraq leaves Arabs counting the cost

By Roula Khalaf in London

Both Iraqi President Saddam Hussein and US President Bill Clinton can claim victory from last week's turmoil in Iraq. Iraq's Arab neighbours, however, have been counting their losses.

Foreign ministers from the Gulf states, main regional allies of the US, met in Riyadh at the weekend and supported the US extension of the no-fly zone over Iraq from the 32nd to the 33rd parallel. But their statement omitted any mention of last week's US missile attacks on southern Iraq in retaliation for Mr Saddam's incursion in the Kurdish north.

The reaction is not surprising. Seen from the Arab world, Mr Saddam's push to assist one Kurdish faction, the Kurdistan Democratic Party (KDP), to recapture territory in northern Iraq presented problems which had no easy solution.

But as Mr Saddam was moving within his own territory and at the invitation of the Kurds the US retaliation was bound to produce unpleasant results.

KDP fighters aboard a truck are driven through Arbil yesterday — Reuter

First among these is the perceived involvement by both Iran and Turkey in Iraq and the possible threat to the country's sovereignty. The Iranian regime is seen as the most serious threat to Gulf stability and has been accused of fomenting unrest in Bahrain. Yesterday the Gulf Co-operation Council – grouping Saudi Arabia, the United Arab Emirates, Bahrain, Oman, Kuwait and Qatar – called on "some neighbouring countries" to "immediately and completely" halt all interference in northern Iraq.

Arab states have always emphasised Iraq's territorial integrity and, like Turkey, they fear that the disintegration of the country into Kurdish, Shia and Sunni parts would only bolster their own minorities.

But by punishing Mr Saddam, the US was indirectly assisting the pro-Iranian Patriotic Union of Kurdistan (PUK). The Kurdish party has hinted that it may openly seek Iranian assistance if the US response proves insufficient, increasing Iran's influence among a section of the Kurds.

Meanwhile, Turkey has announced it is setting up a buffer zone inside Iraq to deter attacks by Turkish Kurdish rebels based in northern Iraq as well as Syria, whose relations with Turkey are strained by water disputes and the Turkish-Israeli defence accord. Syria yesterday hit out at Turkey, warning that the move threatens the region's stability.

Second, as a senior Arab official put it, the US strikes on southern Iraq were "cosmetic" and do not change the fact that Mr Saddam has reasserted his influence in the north.

Even more worrying to Arab governments is that US attacks have boosted Mr Saddam's popularity among Arabs. "The attacks can strengthen Saddam in his own country and in the Arab world," said a Jordanian official. "This is a development Arab governments have been resisting."

And as Mr Saddam's popularity increases, that of the US tumbles, an outcome likely to be exploited by Islamist militants opposed to Arab regimes. This is especially true in Saudi Arabia, where the ruling Al Sauds have been attacked for their pro-US policies and for allowing on Saudi soil some 5,000 US troops enforcing the southern no-fly zone over Iraq.

Already viewed with increasing suspicion for its Israeli policies and its failure to condemn last April's 17-day Israeli bombardment of Lebanon, the US has been the target of two bomb attacks in Saudi Arabia in the last year. In the most recent, a bomb on a US compound in Dhahran in June left 19 servicemen dead. Americans in Saudi Arabia were advised to be on their guard last week as the US launched its missile attacks on Iraq.

For Jordan, the political consequences of the events in Iraq are exacerbated by economic frustrations. Despite recent Jordanian-Iraqi tensions, Jordanian businessmen had been expecting the oil-for-food deal agreed between Iraq and the United Nations last May and now put on hold to boost trade and generate business at the Jordanian port of Aqaba, which handled 70 per cent of Iraq's shipments before the Gulf war.

Envoys confirm massacre

By John Barham in Ankara

Western diplomats and Iraqi opposition members have confirmed reports that a unit of Iraq's Republican Guard massacred about 100 members of the Iraqi National Congress opposition group 10 days ago when a combined Kurdish and Iraqi force captured the city of Arbil.

An INC member captured by guerrillas of the Kurdistan Democratic party (KDP) said Iraqi soldiers overran an INC camp near the town of Qushtepe close to Arbil and took 96 INC guerrillas prisoner. Some were sent to Baghdad for questioning, he said. Others were shot in the desert where their bodies were buried. However, he said Iraqi troops remained in the region, preventing access by INC or journalists.

Reports that Republican Guards killed 96 INC members began circulating within hours of the fall of Arbil on August 31. However, diplomats say they have now been able to piece together what happened. A senior western diplomat said a Republican Guard unit was sent to take Qushtepe, where some 140 INC members were based. They tried to hold off the attack, but were quickly overrun.

The diplomat said 32 guerrillas managed to escape and 12 still remain unaccounted for but that "about 100 INC were killed in cold blood".

Mr Fadil Mirani, a top KDP official last week denied that any massacre had taken place. He said: "These are rumours started by the INC. I don't believe it". He challenged the INC to supply the names of those allegedly killed by the Republican guards.

The diplomat said that one of Iraqi President Saddam Hussein's principal motives for taking the city was to crush the INC. Arbil was its main base inside Iraq. Mr Massoud Barzani, leader of the KDP, last week promised he would not hand over INC prisoners being held in his headquarters in Salahuddin.

Doubts in Europe and Mideast over White House policy contrast with calls in US for tough action

Clinton should have hit Saddam harder, say critics

By Patti Waldmeir in Washington

In Europe, the justification for last week's American attacks on Iraq continues to be called into question. In the US, meanwhile, voices are raised only to ask whether Washington should have done more, not less.

President's Bill Clinton's decision last week to launch cruise missiles against Iraqi air defences in the south, and to extend the southern no-fly zone to the outskirts of Baghdad, has gained wide approval from the public, but much criticism from commentators.

Many argue the action will have made only a small contribution to the longer-term problem of how to deal with President Saddam Hussein.

Many US commentators believe the action did more to highlight American limitations, than to demonstrate strength.

"The loudest message to Saddam was that we did not respond with human beings," said Mr Dov Zakheim, a former US deputy under-secretary for defence, who argued that the use of only unmanned cruise missiles demonstrated to the Iraqi leader that the US was "not ready to spill an ounce of blood" against him.

The refusal by Turkey and Saudi Arabia to provide military facilities for the raid, and the public disaffection of the French, also served to highlight constraints on Washington, which cannot count on support from its former Gulf war allies for further action against Baghdad.

Mr Richard Perle, former US assistant defence secretary, summed up the case against the administration in a television interview. Mr Saddam had paid little for his actions: "He was able to strike and make a tactical withdrawal and get away with it," Mr Perle said. "It's a little like saying that someone who robs a bank has failed because he withdraws from the bank, even though he has got the cash."

American officials argue that they have humiliated the Iraqi leader and weakened his position significantly

US officials reject this line of argument: they do not even pretend that the Kurds, and Mr Saddam's humanitarian outrages against them, are their central concern. America's fundamental strategic interest in Iraq, according to a state department spokesman, was "to deter Saddam from attacking his neighbours who, not coincidentally, have a lot of oil". Those neighbours are to the south of Iraq, so Washington needed to act against Mr Saddam in the south to protect its interests.

American officials argue they have humiliated the Iraqi leader, and significantly weakened him. Critics counter that, by asserting his influence over an area of the north which was supposed to be under western protection, Mr Saddam has actually strengthened his image in the eyes of his own supporters. Some argue that dramatic US action, perhaps against the Republican guard units which are his power base, would be necessary to weaken his hold on power.

Administration officials dismiss such calls as unrealistic, arguing that the cost of removing Mr Saddam from power would be far greater, in political terms and in bloodshed, than any president could be expected to pay. They do not need to add that no incumbent president need risk such a move two months before an election in which foreign policy will probably play little role.

"There is zero reason to think the rest of the world will support a standing-start attack on Saddam Hussein," said one State Department official. "Beating up on the Kurds would be no pretext."

So for the moment, the administration seems content to stick to its policy of trying to keep Mr Saddam cornered and quiet in Iraq.

"Containment has worked. Containment remains our policy," said an administration spokesman, noting that the cost of a dramatically tougher policy would simply be too great. "If we get rid of Saddam Hussein, there is no guarantee things would get better," another official pointed out. "Do we want a made-in-the-USA label on that mess?"

Hizbollah may win four seats in parliament

By Roula Khalaf

Lebanon's Hizbollah, the country's last remaining militia, was vying for four parliamentary seats yesterday as the fourth round of general elections got under way in south Lebanon.

A main feature of the first three rounds held on previous Sundays in Mount Lebanon, northern Lebanon and Beirut has been a concerted effort by the Lebanese government to marginalise the pro-Iranian Shia party.

Hizbollah, born as a response to Israel's 1982 invasion of Lebanon, acts as a resistance movement to continued Israeli occupation of a strip in south Lebanon. While its militia is used by Damascus, the main power broker in Lebanon, to put pressure on Tel Aviv, Hizbollah has also carved a role in Lebanon's political scene. In the 1992 parliamentary elections, it won eight seats.

In spite of a boost in popularity after April's 17-day bombardment of south Lebanon, two Hizbollah candidates lost in earlier voting rounds. Hizbollah has accused the Lebanese government of rigging the poll.

The attempt to cut Hizbollah down to size has been led by the prime minister, Mr Rafiq Hariri, who has emerged as a main winner in these elections. His coalition won 13 out of a total of 19 seats in Beirut last Sunday.

In south Lebanon, 552,000 voters are today choosing 23 deputies for the 128-member chamber. In a deal brokered by Syria, Hizbollah is running in a coalition with its main Shia rival, the pro-Syrian Amal movement, in all of south Lebanon except the city of Sidon. The move should ensure election of up to four Hizbollah candidates.

Israel and US to discuss revival of Mideast talks

By Ilene Prusher in Jerusalem

Mr Benjamin Netanyahu, the Israeli prime minister, is to meet US President Bill Clinton today to discuss the resumption of talks with Palestinians and ways to revive the stalled Israeli-Syrian peace track.

Mr Netanyahu told reporters yesterday that Israel had some "fresh" and "logical" ideas to rejuvenate talks with Syria.

Officials said Israel had made overtures to Syria recently through diplomatic channels.

However, Syria wants reassurances that Mr Netanyahu will adhere to an informal agreement expressing Israel's willingness to withdraw from the Golan Heights.

Israel captured the strategic territory from Syria in 1967, and has since settled 16,000 of its citizens there.

Negotiations between Syria and the previous Labour government were based on the land-for-peace formula. However, Mr Netanyahu has said he rules out withdrawal from the Golan Heights.

Officials say he does not feel he needs to commit himself to unsigned understandings made by the Labour party he unseated in May.

Today's meeting in Washington will also address how to move the Israeli-Palestinian peace process forward following last week's meeting between Mr Netanyahu and Mr Yassir Arafat, the president of the Palestinian Authority.

Israeli government officials said that prior to that summit, the two sides had reached an agreement allowing them to modify some parts in their peace accords.

INTERNATIONAL NEWS DIGEST

Algeria parties in peace talks

The Algerian government and most legal opposition parties will hold a national conference next weekend billed by Algiers as a sign of reconciliation in a country plagued by more than four years of violence.

The conference marks the culmination of months of dialogue between army-backed President Liamine Zeroual and the legal opposition, during which much of the latter agreed to join in Mr Zeroual's efforts to reshape Algeria's political scene. Mr Zeroual has excluded the Islamic Salvation Front, the party which won the first round of general elections in 1991, from the conference. The army's cancellation of the 1991 elections provoked a violent struggle between security forces and Islamic militants which has so far claimed more than 40,000 lives.

Also absent from the conference will be the Berber-based Socialist Forces Front, a main opposition party which walked ont of tha talks this summer and accuses the Algerian regime of attempting to marginalise the opposition. At the conference, parties are expected to adopt a platform set out by Mr Zeroual, and commit them to the rejection of violence and to the ban on using Islam to attain power. *Roula Khalaf, London*

Uzbeks permit rights meeting

Secular and religious opposition leaders in Uzbekistan united over the weekend in their first sanctioned public meeting in three years, emboldened by government support for the country's first human rights conference later this week. Police stayed clear of the 100 Uzbeks who gathered on Saturday in Tashkent, offering some hope that years of murder, jailing and abuse of political activists may give way to a limited level of freedom.

Delegates re-elected Mr Abdumannob Polat – who gained fame in 1992 when Uzbek secret service agents kidnapped him from neighbouring Kyrgyzstan and put him in jail – as chairman of the Human Rights Society of Uzbekistan. Mr Polat, an exile in the US, has been invited to address this week's human rights conference in Tashkent, organised by the Organisation for Co-operation and Security in Europe. *Sander Thoenes, Tashkent*

Uranium price 'needs to rise'

Uranium prices, which have already doubled from a very low level in the past two years, need a further "substantial" rise if producers are to be encouraged to fill a growing gap between supply and demand, delegates at a Uranium Institute symposium in London pointed out.

The institute's latest supply and demand survey of the global nuclear fuel market shows that ouly about half of the nuclear power industry's requirements today are met by uranium mines, with the rest coming from rapidly diminishing stocks. Some extra uranium mining capacity is already planned, but the survey suggests this will leave a big gap between supply and demand in the years to 2015 even with the expected contributions to supply from reprocessed fuel and Russia's military grade uranium that is being blended down for use in nuclear power stations. *Kenneth Gooding, London*

Burundi sanctions eased

Officials of seven African countries have agreed to ease sanctions imposed on Burundi after the coup there, to allow humanitarian aid to reach refugees. Sources from a conference on Burundi which ended on Saturday in Arusha, Tanzania, said there was no apparent response to a plea from Burundi's military ruler, Major Pierre Buyoya, for the full lifting of sanctions imposed after ths July 25 coup that brought him to power. *Reuter, Arusha*

IMF near vote on gold sales for debt relief

By Robert Chote, Economics Editor

A proposal to sell $2bn of tbe International Monetary Fund's $40bn gold reserves to finance debt relief for poor countries could be put to a vote at the organisation's executive board as early as this week. But officials say it is not clear if it has sufficient support to be approved.

Five countries are understood to be holding out against gold sales, which need 85 per cent support in the board. These include Germany, Switzerland and Italy, which together wield 12.32 per cent of the votes. The other two opponents of gold sales – Austria and Finland – each hold less than a fifth of the votes within tbeir multi-country constituencies that must vote as a bloc. Austria's constituency has 5.09 per cent of votes on the board and Finland's 3.47 per cent.

If eitber country persuades its constituency to vote against gold sales, or to abstain, it would be enougb to block the proposal.

Mr Michel Camdessus, the IMF's managing director, is understood to want to avoid an open split on the issue and he is not expected to force a vote at Wednesday's meeting unless be believes that gold sales will win thc day.

The prospective line-np in the board is still not certain. Some proponents of gold sales believe that the Finns, the Italians and perhaps even the Swiss could yet be persuaded to back them. But others believs that the Finns could be joined by other Scandinavian countries in the anti-gold sales lobby.

Opposition to gold sales has been led by Germany, which believes that they would set a bad precedent and could undermine the IMF's financial security at a time when it is lending heavily to Mexico and Russia. Like Switzerland, Germany also wants to avoid stirring up support for sales of its central bank's own gold stock for domestic reasons.

Weekend press reports suggested that a senior German official bad met the heads of the IMF and World Bank in Washington last week to urge them to drop the gold sales idea.

He was reported to have offered in exchange German support for an increase in the amount of debt relief offered by ths Paris Club of creditor governments from 67 per cent (the so-called "Naples terms") to 80 per cent. This is line with the figure proposed by the UK and the Netherlands, but still less than the 90 per cent which the IMF and World Bank would like.

The Paris Club remains a serious obstacla to the debt initiative, which is expected to cost between $5.6bn and $7.7bn. It has yet to say wbsther, and on what terms, it would contribute. Mr Christian Noyet, the French official who heads the Paris Club, last week described the plan as bureaucratic and excessively complicated.

In a separate meeting in Paris on Friday, officials from more than 20 countries mads further progress in agreeing a $50bn credit line which the IMF could draw upon in the event of Mexico-style financial crises. But one finance ministry official said it was still not certain final details would be tied up in time for the IMF board to approve arrangements ahead of its annual meeting later this month. It is still not clear whether some countries will sign up, or exactly what institutional back-up will be provided.

Bangladesh draws up case, Page 6

Brazil moves to rein in gun-linked violence

Brazil's President Fernando Henrique Cardoso seot emergency legislation to Congress on Friday aimed at restricting sccess to firearms amid growing concern over violent crime.

The measure, expected to be approved by the end of September, makes it harder to buy guns, increases penalties for carrying them without s licence and establishes a national firearms register to monitor ownership.

It comes less than a month after middle class residents of São Paulo were sbocked by the motiveless murder of a young woman during the robbery of a bar in s well-to-do area and follows a spate of fatal shootings in traffic arguments and of drugs-related killings.

The bill's supporters bope it will belp to reduce the number of murders in Brazil's cities, whicb averaged 22 a day in São Paulo during the first half of 1996. But its critics say it will not do enough to combat a widely tolerated gun culture.

Under current legislation, anyone who has been at work for a year and has no criminal record may buy up to three guns in each of Brazil's 27 states.

Under the new law, the limit will apply natioowide, buyers of guns will have to pass a psychological examination and the maximum penalty for illegally carrying firearms will rise from six months' imprisonment to six years'. "This will have e direct impact on the bomicide rate," said Congressman Roberto Jefferson, euthor of the bill. "People will think twice about carrying guns."

A study pnblished last week by the University of São Paulo (USP) supports the view that incidence of gun ownership inflnences the murder rate. Researchers studied murders in 14 police districts and found that 90 per cent were committed with firearms and over half for "futile" reasons: fights in bars, over women, between drunks and in traffic.

"People are killing each other in the heat of the moment, and they couldn't do it without a gun, " says Mr Guaracy Mingardi of USP's Centre for the Study of Violence.

Mr Mingardi says the number of illegal guns in circulation has increased since economic reforms introduced two years ago boosted the average Brazilian's spending power. The Brazilian lawyers' association, the OAB, reckons there are 1.2m illegal weapons in São Peulo state, against 120,000 registered ones. An average of 1,277 illegal guns were seized in the city each month during the first half of this year.

The bill's supporters say stiffer penalties will reduce the number of guns carried by ordinary citizens and, therefore, the number stolen and used by criminals.

But Mr Jairo Fonseca of the OAB says changing the law is not enough. He advocates immediate destruction of all illegal guns seized – most now end up back on the black market – and e freeze on new gun licences. The OAB hopes to persuade the São Paulo government to adopt its suggestions and recently launched an advertising campaign aimad at changing attitudes to gun use. "Guns are still seen as something to be proud of," says Mr Fonseca. "We have to stigmatise them."

The OAB's campaign will also argue that carrying a gun is dangerous: for every 16 people who attempt to use a gun to defend themselves from attack, it says, 15 are either killed or seriously injured.

Jonathan Wheatley

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NEWS: ASIA-PACIFIC

Beijing finds HK allies in Japan dispute

By John Ridding in Hong Kong

The Sino-Japanese disputs over a group of islands in the East China sea is stirring up Chinese nationalism in Hong Kong, creating a common cause between Beijing and its political opponents in the territory ahead of next year's handover of sovereignty.

Demonstrations at the weekend drew more than 1,000 protesters, and organisers said they planned to step up demands that Japan renounce claims to the Diaoyu islands (called the Senkakus by Japan) and dismantle a lighthouse built by Japanese groups.

Activists are planning to launch an expedition to the islands, about 300km to the west of Okinawa, and are pressing for e consumer boycott of Japanese goods.

Trade unionists and pro-China groups have been involved in the demonstrations, hut the most striking feature has been the role played by the Democratic party, largest group in the territory's legislature and a vocal critic of Beijing's plans for Hong Kong after the transfer of sovereignty from Britain on July 1 next year.

On Friday, the Xinhua news agency in Hong Kong opened its doors to the Democrats for the first time to receive a petition urging China to oust Japan from the disputed islands. The delegation to China's *de facto* embassy was led by Mr Szeto Wah, a party official blacklisted by Beijing for his support of democratic activists on the mainland.

"China has been too soft in dealing with the Japanese occupation of tha Diaoyu islands because it wants Japan to be involved in China's economic development," said Mr Yeung Sum, the party's deputy chairman.

The reception at Xinhua headquarters suggests Beijing is seeking to use the issue to create unity ahead of the handover. "It *is* e familiar tactic to use an external issne to forge unity," says one diplomat. "Japan is an obvious target because of the war and the occupation of Hong Kong."

In addition to the island expedition and a consumer boycott call, demonstrators say they are organising an all-night vigil on September 18 to mark the Japanese invasion of Manchuria.

Although small, the demonstrations reflect a seam of anti-Japanese sentiment in Hong Kong and the sensitivity of the islands issue. The protests come as China is signalling a softer line towards opponents in Hong Kong, having offered to hold talks with the Democrats.

● Angry Taiwan residents formed an alliance yesterday to try to protect the Diaoyu islands from Japan and threatened mass protests over what they said was Tokyo's invasion of the islands, Reuter reports.

Sales expected to treble over 10 years as CDs become the dominant medium

Asia rises in music industry charts

By Alice Rawsthorn

Musicians from Asia's fast growing market: Carabao band from Thailand

Asia will be one of the music industry's fastest growing markets over the next decade with retail sales trebling from $10.6bn last year to nearly $33bn by 2005, according to a new study published by Music Business International (MBI).

The industry magazine highlights China, India and Pakistan as Asia's most dynamic markets. It expects healthy growth throughout the region, including more mature markets such as Japan and Hong Kong.

The dramatic increase in sales of compact discs and cassettes across Asia comes at a time when the pace of growth is expected to slacken in established music markets, including North America and Europe.

MBI expects a 48 per cent increase in global music sales from $41.2bn in 1995 to $61.1bn in 2001. During that period the fastest growing region will he eastern Europe, achieving even higher growth than Asia with sales trebling from $502m to $1.6bn.

But the Asian market is so much larger, so its progress will have a greater impact on the music industry's finances. MBI forecasts a 74 per cent increase in sales for the region from 1995'e $10.6bn to $18.4bn in 2001.

Japan now dominates the Asian market, with sales of $8.3bn last year compared with $2.3bn for other countries in the region. This gulf is expected to be narrowed, with Japanese sales increasing by 37 per cent to $11.4bn by 2001, and other Asian sales rising threefold to $7.1bn.

The chief catalysts for the market's growth will be general economic expansion, clampdowns on piracy and a switch from cheap cassettes to more expensive CDs.

By far the most dramatic growth is likely to be in China, where MBI expects sales to escalate from $310m last year to $2.2bn by 2001, when China will have become the world's sixth largest music market. Indian sales are forecast to leap from $257m to $1.2bn over the same period.

MBI expects the "big five" companies that already dominate the global music market – PolyGram of the Netherlands, Japan's Sony, Warner of the US, the UK's EMI and Germany's Bertelsmann – to become the largest forces in Asia.

So far there is no sign that western stars will reap all the benefits. Local musical genres such as "Mandopop" and "Cantopop" command wide popularity, as do Asian stars, notably Jacky Cheung, the Hong Kong singer signed to PolyGram, and Teeth, a Philippines act on Warner.

The MBI Asian Report is published by MTI, 7 Archway Business Centre, Wedmore Street, London N19 4RU. £595.

Inter-Continental gains four hotels in Malaysia

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Inter-Continental Hotels and Resorts is to announce today a joint venture agreement with Federal Hotels International, the hotel management arm of Low Yat, the Kuala Lumpur-based conglomerate, which will give it four hotels in Malaysia, where it had none before.

Joint ventures are playing an increasingly important part in the race by hotel management companies to expand globally. Companies are ready to sacrifice part of their management fees and outright control of the hotel operation in order to secure a foothold in new markets.

Last month, ITT Sheraton formed a joint venture in Israel with Koor Hotels and Resorts, part of Koor Tourism Enterprises, the publicly quoted group. Under the agreement, the five hotels managed by Koor in Israel are being rebranded as Sheraton or Four Points Hotels, its mid-market brand.

Inter-Continental, which had two joint venture agreements in Mexico and South Africa, last week secured a third in China with Dynasty, a privately owned Hong Kong-based hotel development company.

The agreement increases its presence in China rapidly, giving it four hotels in Beijing, Chengdu, Qingdao and Xian in addition to the hotel it already operates in Shenzhen. A sixth hotel at Harbin is due to open next year. Inter-Continental aims to have 25 hotels in China by 2010.

The group is also in the final stages of negotiating a joint venture in Indonesia.

Mr Gavin Simonds, joint managing-director of Inter-Continantal said: "We recognise that you cannot manage the world from one centre. Joint ventures combine local knowledge with global reach."

Saison Group, the Japanese retail consortium which owns Inter-Continental, is expected to float the hotel chain in London or New York within the next 18 months.

OECD optimism in South Korea

By John Burton in Seoul

South Korea is optimistic it will enter the Organisation for Economic Co-operation and Development this year after the Paris-based group gave cautious approval to Seoul's financial liberalisation plan.

The US and several European countries had threatened to block Korea's OECD application unless it opened its capital markets wider. But two OECD panels, which had been examining Korea's financial liberalisation measures, gave a "tentative and reluctant" endorsement to them on Friday.

The committees' approval had been uncertain, with Mr Christian Schricke, the senior OECD legal counsel, telling officials in Seoul last week that most OECD members regarded Korea's financial liberalisation plan as unsatisfactory.

The OECD's governing board is expected to make a final decision on Korea's membership on September 26 after reviewing committee reports on capital markets, trade, labour, the environment and other criteria.

The half-hearted recommendation offered by the OECD committees on capital movement and investment liberalisation, however, suggests Korea might still be pressed to offer a firm deadline for the complete removal of all capital controls before its application is accepted.

Korea wants the speed of deregulation to be determined by economic preconditions that could take years to achieve.

Seoul said it would not accept the complete opening of its bond market and the liberalisation of capital flows until the gap between high domestic interest rates and low foreign ones narrowed to 2 percentage points from its present 6-7 points.

The Korean position has raised suspicions among OECD members about whether Seoul is willing and able to assume its obligations as a member of the club of advanced industrial nations. Nonetheless, the committee approval of the financial liberalisation plan might indicate the OECD has decided to accept Korea for political reasons, even though it has not met all OECD requirements.

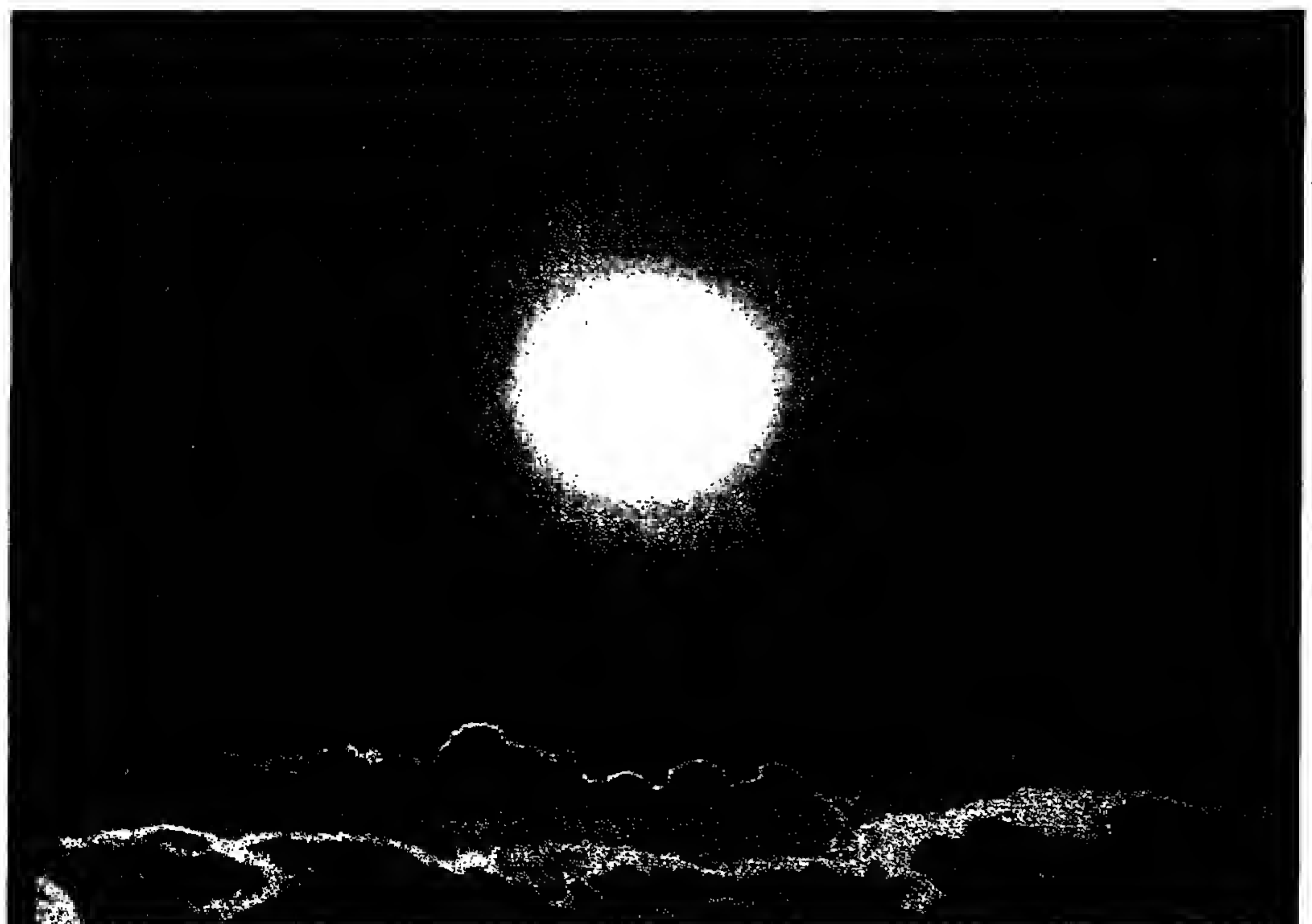
Seoul has argued it should be allowed into the OECD because it is the world's 11th largest economy. Its presence as the second east Asian nation in the group, after Japan, would also correct the OECD's heavy Euro-centric orientation.

Korean officials have also recently warned the OECD that Seoul would probably withdraw its application if any more demands were made because of growing domestic political opposition to membership.

"If we are forced to withdraw our application or were rejected, we would lose our taste for (the OECD) and probably not try to apply again," said one senior government official. But if "Korea is allowed entry into the OECD, it would guarantee that we would proceed with economic reforms through peer pressure. This is not the end of the reform process, but only the beginning."

The government fears that any new concessions given to the OECD would jeopardise ratification of the OECD agreement in the national assembly, where the ruling party holds only a three-seat majority.

The two main opposition parties and most of the Korean media have criticised OECD membership as likely to exacerbate the country's growing economic problems.



ASIA-PACIFIC NEWS DIGEST

Mahathir hits at Singapore

Dr Mahathir Mohamad, Malaysia's prime minister, has accused Singapore of insincerity and racial discrimination, in his strongest criticism of the southern neighbour since he became Malaysia's leader 15 years ago. He said at the weekend that statements by Singapore leaders on the possibility of reuniting with Malaysia had offended the United Malays National Organisation (UMNO), the dominant party in Malaysia's ruling coalition.

He was referring to comments by Mr Lee Kuan Yew, Singapore's former prime minister and now senior minister. He said in June the city state could rejoin Malaysia, but only if Kuala Lumpur dropped policies of affirmative action for certain races and became a meritocracy. Singapore was part of Malaysia from 1963 until it was expelled in 1965.

The prime minister also took issue with remarks by his Singaporean counterpart, Mr Goh Chok Tong, who warned last month that Singapore could be forced to ask Kuala Lumpur to take it back if its economy faltered. "We are offended by their recent statements, which are insincere. They are using us as the bogeyman to scare Singaporeans," Dr Mahathir was quoted as saying in local newspapers. *James Kynge, Kuala Lumpur*

HK judge may drop title

Hong Kong's chief justice may relinquish his British knighthood as well as his judicial post to help his campaign to become chief executive of the territory after its handover to China on July 1 next year, the South China Morning Post said yesterday.

Sir Ti Liang Yang, who entered what had been regarded as a one-horse race against Ms Anson Chan, head of the civil service, last week, also told Hong Kong reporters in London he had no regrets about giving up his British passport – a precondition for the job. He said he was checking whether he needed to drop his knighthood, awarded in 1988. *Reuter, Hong Kong*

Foreigners' pay rises hit

Hong Kong's best paid expatriates are seeing rises in their pay packages trimmed, according to the South China Morning Post. A sluggish economy and a drive to recruit local executives had created a more difficult expatriate jobs market, it said, quoting a study by Q3 Associates.

The survey of 223 leading companies in the territory found average packages for middle to top management over the past year rose 6.5 per cent, compared with the 1994-95 jump of 15.1 per cent. *Reuter, Hong Kong*

China flood claims forecast

China's big insurer, the People's Insurance Group, expects to pay out Yn3.2bn ($385m) in damage claims for widespread flooding this summer, the Business Weekly said yesterday. People's Insurance had already paid out Yn800m in claims by August 20 and the extent of the damage was still being tallied, the newspaper quoted a company official as saying. Flooding had killed at least 2,700 people this year. *Reuter, Beijing*

Bangladesh draws up its case for an increase in aid

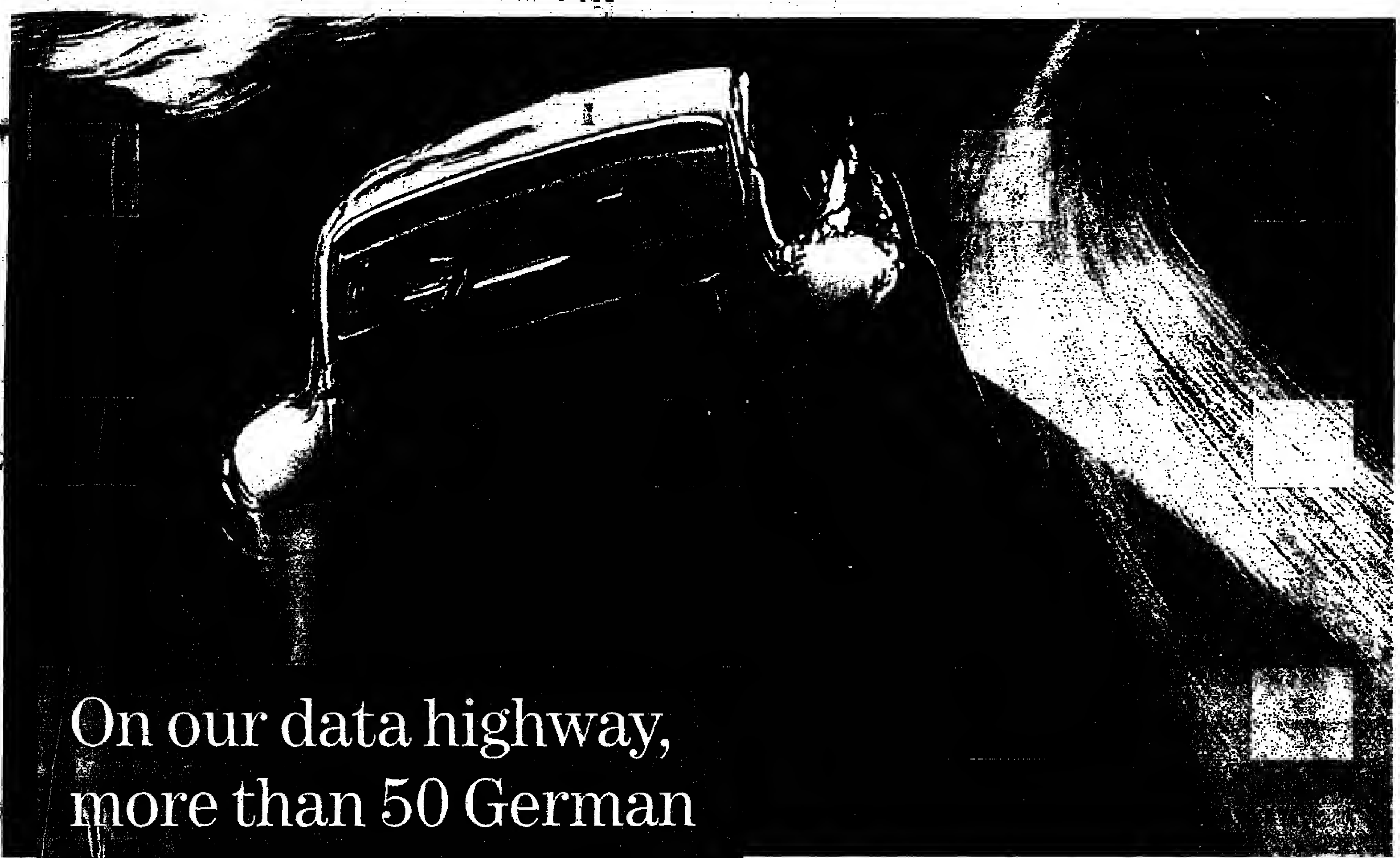
By Kasra Naji in Dhaka

The government of Bangladesh will spell out the details of its economic policies today at the annual meeting of foreign donors in Paris. Foreign aid amounts to about $1.5bn each year – almost one qnarter of the country's total annual foreign exchange receipts.

Mr Shah Kibria, finance minister, will appeal to senior officials from the World Bank, the IMF, various United Nations bodies and aid agencies for $2bn for the 1996-97 financial year. The government says it needs the help to complement its efforts to alleviate poverty and encourage growth. But to get that sum, Mr Kibria will have to convince donors at Paris the government is working to reduce its aid reliance when there is stiff competition for donor funds from republics of the former Soviet Union and eastern Europe.

Mr Kibria only becams finance minister in June when the Awami League secured a strong majority in the general elections after 21 years in opposition. He will have to show commitment to a range of long-overdue reforms to streamline the government, shrink the budget deficit, privatise loss-making state enterprises, open the economy to private sector participation and attract investment.

The government appears to recognise ths need for many of the reforms urged by the World Bank. But a question mark hangs over the speed with which it will carry them out.



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Power demands may bring overnight Channel tunnel trains to a halt

Doubt cast on plan for Eurostar sleeper

By Charles Batchelor, Transport Correspondent

Plans for overnight sleeper trains through the Channel tunnel are being reviewed because of technical problems. The heavy power usage of the new sleeper trains, dubbed "hotels on wheels", could place heavy demands on the ageing equipment on the west coast mainline from London to Birmingham and Glasgow.

"We are worried that if everyone went to the loo or had a shower at the same time the train would stop," said Mr Adam Mills, the newly appointed chief executive of London & Continental Railways, the private-sector consortium which took over Eurostar services in June. "All these problems are solvable. The sleepers are not being cancelled. But we are dealing with old kit."

There have also been delays at the manufacturer of the carriages, GEC Alsthom's Metro Cammel subsidiary. These difficulties follow delays in the start of daytime tunnel services from the Midlands and the north.

LCR, which took over Eurostar services when it won a £3bn contract to build a high-speed rail link between London and the Channel tunnel, denied any plans to drop the proposed sleeper service but said it was reconsidering earlier commitments.

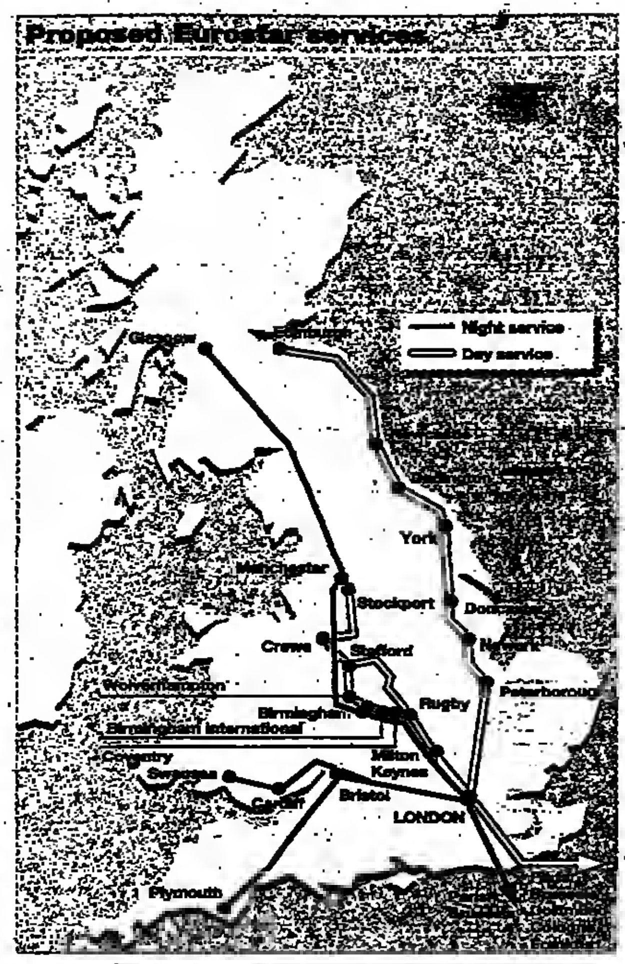
Plans to run sleepers from the UK regions to Brussels were dropped last year because of the low passenger numbers on the daytime London to Brussels services.

"There is a political desire for the sleepers but we are reviewing the whole operation," said Mr Mills. "There are horrendous technical problems."

Although the west coast line is the only regional electrified line which would be used by the sleeper trains, it would not be feasible to operate sleepers only on non-electrified lines to Wales and the west country. The idea is to run separate trains from the north and west to London, and link them up for the rest of the journey.

The start of daytime services from the north of England, the Midlands and the west country has already been held up by problems in making sure electrical systems on the powerful Eurostar high-speed trains are compatible with line-side equipment north of London.

Sleeper services were intended to start in late 1995 but the most recent start date given by Eurostar was the first half of next year. Following an announcement last week that daytime regional services, planned for later this year, would not start until Easter 1997, the starting date for sleeper services has also slipped.



City People, Page 30

Battle for 'real Lloyd's' hots up

By Ralph Atkins, Insurance Correspondent

Senior figures at Lloyd's of London will this week seek backing for a new investment fund aimed at ensuring the 308-year-old insurance market's traditional strengths are not jeopardised by recent takeover activity by overseas investors.

Mr John Stace, a Lloyd's deputy chairman, described the initiative as "a campaign for real Lloyd's", to rehabilitate some of the skills and entrepreneurial flair that made Lloyd's the market it was". The fund could seek to raise up to £100m ($156m).

The project comes amid concern by some at Lloyd's that the acquisition by overseas investors of many managing agencies – which run Lloyd's syndicates – is curbing underwriters' independence and turning the market into a "branch office" of US and Bermudian insurance groups. Corporate investors are increasingly replacing Names, the individuals whose assets have traditionally supported the market on the basis of unlimited liability.

The latest moves highlight the battle between those who want to preserve the Lloyd's traditions of capital flexibility and constant regeneration, and others – such as Mr John Charman, a Lloyd's deputy – who believe policyholders want to deal with large underwriting vehicles backed by permanent, limited liability investors. The "real Lloyd's" campaign would allow investors to trade with limited liability and would try to build a partnership between capital providers and managing agencies.

Supporters of the new fund include Mr Graham McKean, a member of the Lloyd's ruling council; Mr Ralph Bailey, a Lloyd's underwriter; and Mr Rory Carvill, a Lloyd's insurance broker.

UK NEWS DIGEST

Row over CD phone directory

A German company will this week begin to test the UK market for a telephone directory on compact disc which will enable users to identify individual subscribers and their addresses from telephone numbers.

The move is likely to attract legal action from British Telecommunications because TopWare CD-Service of Mannheim has taken the information used on the disc from BT's telephone books without permission. Neither has it bought a licence to use the information.

The Data Protection Registrar is also likely to investigate the implications of the "reverse searching" technique which matches numbers to addresses. *Alan Cane*

■ HOUSEHOLD APPLIANCES

Market poised for high growth

Britain is this year poised for its highest growth in sales of household appliances since the late 1980s, according to Hotpoint and Electrolux, the two biggest UK suppliers.

The forecast is directly linked to the improved state of the housing market. According to separate estimates from Hotpoint and Electrolux, sales volumes this year of washing machines, fridges, clothes dryers and ovens are likely to rise by about 3 per cent compared with last year.

Hotpoint, owned jointly by GEC of Britain and the US's General Electric, and the Swedish-owned Electrolux together control more than 40 per cent of the UK white goods market, valued this year at about £2bn at retail prices. The upbeat projections follow several years of weak sales, linked to the poor state of the housing market and depressed consumer confidence. As the economy has improved and house sales pick up, more people are opting to replace appliances bought during the 1980s boom.

While expected UK sales of domestic appliances of 7m to 8m units this year would be substantially up on 1995, the total value of the goods will barely move. This reflects intense competition among retailers and manufacturers. *Peter Marsh*

■ ETHICAL INVESTMENT

Stakes held 'to appease consciences'

"Ethical investors" are only prepared to make limited financial sacrifices to appease their consciences and they often invest knowingly in companies involved in morally questionable activities such as arms manufacturing, according to preliminary research results released today.

The study – published at the opening of the British Association's Science Week in Birmingham – is the first step in an extensive survey of ethical investment, funded by the Economic and Social Research Council at Bath University.

The researchers investigated in detail the behaviour of 20 individuals with investments worth between £10,000 and £250,000; 10 were investors in ethical unit trusts and 10 were members of Shared Interest, a fund that invests in projects in developing countries. Nineteen of the 20 investors put the bulk of their money into mainstream investment vehicles, including equity stakes in companies involved in deforestation and making weapons. The main reason why they put only a small proportion of their assets into ethical funds was that they did not expect them to perform well, the study showed. *Clive Cookson*

Union leader foresees strike-free future

By Robert Taylor, Employment Editor

A senior trade union leader last night called for unions to move towards binding arbitration to resolve industrial conflicts as an alternative to strikes.

On the eve of the annual conference of the Trades Union Congress in Blackpool in the north of England, Mr Ken Jackson, general secretary of the AEEU engineering union, said unions "could consign strikes to history.

"A new Labour government will usher in a new era of partnership between companies and employees", he added. "This gives us a great opportunity to put strikes behind us and have, in their place, a better way of settling disputes".

Leaders of the opposition Labour party are worried by the disruption caused to the public by rail and postal strikes. A further stoppage is due at seven train operating companies run by British Rail on Wednesday when conductors in the RMT transport union will strike for 24 hours in pursuit of increased productivity payments and rest breaks.

The CWU postal workers union executive meets tomorrow and is expected to put Royal Mail's package of measures to cut hours and change working practices to a ballot of the members with a recommendation to them to oppose its introduction.

Mr Jackson said he did not believe in compulsory or legally binding arbitration. But he called on the TUC to offer binding arbitration as part of a voluntary compact with a Labour government in return for the introduction of a national minimum wage, signing the social chapter and legal rights of representation and recognition for unions.

He said he envisaged the setting up of "small, fast-track arbitration appeal units to which employers and employees would present their case" with the decisions reached being binding on both sides.

Union leaders reacted cautiously to Mr Jackson's proposal. Mr Bill Morris, general secretary of the TGWU general union, said a "new industrial relations settlement" would be needed. But he added: "No employer is prepared to hand over any decision to a third party which does not have ultimate responsibility for its implementation."

Mr John Edmonds, the GMB general union leader, said that any proposal to limit the use of the strike weapon by introducing arbitration was "no more than a pretence to restrict workers' rights".

Trade unions are popular and a substantial majority of voters back new employment rights, according to an NOP poll commissioned by the Trades Union Congress. The TUC said the degree of fear attached to the workplace was shown by the 54 per cent who agreed: "If I lost my job it would be very difficult to find a new one that was as good," Andrew Bolger writes.

Mr John Monks, TUC general secretary, said: "Even we were surprised by just how much backing our policy agenda receives from the public. The poll shows that people are fed up being taken for granted at work."

The survey found that most people at work (57 per cent) were more insecure than two years ago and 55 per cent expected their work to become even more insecure. They felt under intense pressure, with 57 per cent saying they did the work which was done by two people 10 years ago.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on [illegible]: Pool purchase price £/MWh	Final Prices for Trading on [illegible]: Pool purchase price £/MWh	Pool selling price £/MWh
0030	8.84	9.01	9.81
0100	7.00	9.02	9.02
0130	7.00	8.99	8.99
0200	7.00	8.99	8.99
0230	7.00	8.93	8.99
0300	7.00	8.99	8.99
0330	7.00	8.99	8.99
0400	7.00	8.99	8.99
0430	7.00	8.99	8.99
0500	7.00	8.99	8.99
0530	7.00	9.00	9.00
0600	7.00	8.98	8.98
0630	7.00	8.98	8.98
0700	7.00	8.99	8.99
0730	7.49	9.00	9.00
0800	8.22	8.88	10.81
0830	8.85	8.89	10.81
0900	8.03	13.23	15.14
0930	8.04	13.39	15.31
1000	11.59	15.72	17.63
1030	13.46	14.92	16.83
1100	14.42	16.72	17.63
1130	15.62	16.04	18.98
1200	15.65	16.89	20.80
1230	21.52	16.89	20.80
1300	21.52	16.89	20.80
1330	21.52	16.89	20.80
1400	15.62	15.72	17.63
1430	13.46	14.92	16.83
1500	13.56	14.92	16.83
1530	12.98	13.39	15.31
1600	9.00	9.02	9.02
1630	9.00	9.02	9.02
1700	8.81	13.39	15.31
1730	12.98	14.92	16.83
1800	12.98	14.92	16.83
1830	13.56	14.92	16.83
1900	13.46	14.92	16.83
1930	13.56	9.02	9.02
2000	15.38	9.02	9.02
2030	19.64	9.02	9.02
2100	19.64	14.92	16.83
2130	19.64	21.63	23.54
2200	19.64	21.63	23.54
2230	15.01	21.63	23.54
2300	12.98	14.32	16.23
2330	13.46	13.23	16.14
2400	9.00	8.89	10.81

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £14.80/MWh becomes 1.480p/KWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded [illegible] of correction. No reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by Energy Settlements and Information Services Limited. Anyone wishing to receive such information should telephone 0115 945 6788 between 8:30am and 5:15pm Monday to Friday.
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0030	9.03	9.02	9.02
0100	8.82	8.99	8.99
0130	8.82	8.99	8.99
0200	8.82	8.99	8.99
0230	8.82	8.99	8.92
0300	8.84	8.99	8.99
0330	8.84	8.99	8.98
0400	8.84	8.98	8.98
0430	8.84	8.98	8.99
0500	8.85	8.96	8.98
0530	8.86	8.85	8.85
0600	8.97	8.87	8.87
0630	9.01	9.01	9.01
0700	9.08	9.02	9.02
0730	14.25	13.53	14.97
0800	18.85	17.72	19.17
0830	26.26	21.55	23.08
0900	27.01	22.31	24.01
0930	47.09	23.43	25.42
1000	55.04	24.41	26.80
1030	59.27	25.10	27.41
1100	63.31	25.64	28.05
1130	68.59	26.57	28.90
1200	79.40	26.63	29.46
1230	73.08	26.30	28.82
1300	56.85	25.14	27.45
1330	38.45	23.71	25.74
1400	32.27	19.72	21.59
1430	26.74	19.32	21.00
1500	25.94	19.12	20.63
1530	27.80	19.04	20.73
1600	33.49	19.27	21.03
1630	58.25	19.80	21.68
1700	63.91	39.62	41.60
1730	56.72	39.26	41.15
1800	31.38	38.49	40.20
1830	13.40	19.15	20.65
1900	10.62	18.09	18.55
1930	11.52	16.70	18.13
2000	18.25	16.69	18.12
2030	23.74	9.08	9.08
2100	23.35	25.73	27.18
2130	24.40	25.92	27.37
2200	17.38	25.92	27.57
2230	16.05	25.80	27.34
2300	13.44	13.52	14.97
2330	13.04	13.23	14.67
2400	10.37	13.07	14.50

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THE WEEK AHEAD

DIVIDEND & INTEREST PAYMENTS

■ TODAY
Abbey National Treasury Gtd FRN 1998 $13.84
Alvis 1p
Anglo Irish Bank FRN 1998 £155.70
Anheuser-Busch $0.48
British gas Int Fin 8⅜% Gtd Nts 1999 $83.75
Bulmer (HP) 8.65p
Fairbairn Euro Smaller Co's Index Tst 1.2p
Funding for Homes 10⅞% Db 2018 £5.0625
Grace (WR) $0.125
Guinness Fin 8¼% Gtd Nts 1998 A$82.50
Hartstone 0.32p
Investors Cap Tst Inc Ams 1.35p
Do Units 1.35p
MS Int 0.5p
Partridge Fine Arts 1.4p
Reuters 2.75p
Rockwell Int $0.29
Wessex Water Fltg Rate Cm Pf 5.81875p
Woolwich Bldg Scty 7% Nts 1998 £700.0

■ TOMORROW
Allied Signal $0.225
Dun & Bradstreet $0.25
Electronic Data Systems $0.15
Exxon $0.78
Fuji Bank Int Fin Perp Sb FRN $16199.82

General Motors $0.40
Goode Durrant 5.8p
Halifax Bldg Scty FRN 1999 $14.15
Houston Inds $0.375
IBM $0.35
Kawasaki Steel 6% Bd 1997 Y600000.0
Lilly (Eli) $0.3425
Malvern UK Index Tst 2.2p
National Australia Bank Sb var Rate Nts 2000 £156.79
Nippon Paint 6.1% Bd 1997 Y610000.0
Portman Bldg Scty FRN 1997 £152.0
Sabre Int (No 2) Ser N Var Rate Nts 1996 Y21642.0
Do Ser O Var Rate Nts 1996 Y24198.0
Sumitomo Heavy Inds FRN 1998 Y24836.0
Symonds 1p
Tenneco $0.45
Texaco $0.85
Treasury 5½% 2008/12 £2.75
Utd Technologies $0.55
Warner-Lambert $0.345

■ WEDNESDAY SEPTEMBER 11
Ashanti Goldfields $0.125
Do Global Dep $0.125
Clarke (T) 1.628p
French Property Tst 0.5p
Gold Fields Property R0.30
Kubota FRN 1997 Y23019.0
MBL Fin 8⅝% Gtd Bd 2006 $875000.0
New Wits Shan 2.37p

Suter 3.9p
Treasury Fltg Rate 1999 £1.4312
Vogels Metal R0.30

■ THURSDAY SEPTEMBER 12
Bankamerica $0.54
Brunner Inv Tst 2.9p
Bullough 1.17p
Cardo Eng 7.31p
Challenge Bank FRN 1997 $15.21
Finsbury Smaller Co's Tst 1.3p
Kode Int 0.75p
Pfizer $0.30
St Modwen Properties 0.8p
Sapporo Breweries FRN 1997 Y205843.0

■ FRIDAY SEPTEMBER 13
Atlantic Richfield $1.375
Beatrix Mines R0.70
CSX $0.26
Carpetright 9p
Dallywin 4.5p
Dana $0.25
Debenham Tewson & Chinnocks 0.9p
East Rand Gold & Uranium R0.30
Edinburgh Inv Tst 3.65% Cm Pf 1.825p
Elandsrand Gold Mining R0.55
Free State Cons R1.10
Gartmore Micro Index Tst 0.6p
Greenfriar Inv 2.3p
Hydro-Quebec 12¾% Ln 2015 £6.375
Kinross R0.80

Kirin Brewery Y6.0
Leslie Gold Mines R25
Nationale Investeringbank Sb FRN 2002 $135.86
Southvaal R4.10
Trinova $0.20
Vaal Reefs R9.90
Western Deep Levels 3.20
Witan Inv 3.05p
Yeoman Inv Tst 6.5p

■ SATURDAY SEPTEMBER 14
Young & Co's Brewery 9½% Db 2018 £4.75

■ SUNDAY SEPTEMBER 15
Canadian General Invs $0.075
Dover $0.17
Halliburton $0.25
Morrison (Wm) Supermarkets 5¼% Cm Rd Pf 2.625p
Newcastle Bldg Scty 12⅝% Perm Int Brg £63.125
Pennzoil $0.25
Quebec (Province of) 12¼% Ln 2020 £6.125
Sweden (Kingdom of) 9¾% Ln 2014 £487.50
TRW $0.55
Whirlpool $0.34

UK COMPANIES

■ TODAY
COMPANY MEETINGS:
Cook (DC), Swallow Hotel, Bawtry Road, Rotherham, 12.30
Parkland, Headingley Taverners' Club, St Michael's Lane, Headingley, Leeds, 11.00
Primary Health Properties, 10, Park Place, S.W., 2.30

BOARD MEETINGS:
Finals:
Cash Converters
Dowding & Mills
Finelist
Polypipe
TR City of London
Interims:
ASW
Black (A&C)
British Polythene
British Vita
CA Coutts
Calor
Canadian Pizza
Dewhirst
Eurotunnel
Flare
Forth Ports
Hammerson
John Mansfield
Intrum Justitia
Laser-Scan
Nestor-BNA
Plasmec
Rugby
TT
Vitec
Waterford Foods
Wilson Bowden

■ TOMORROW
COMPANY MEETINGS:
Bensen, Most House Hotel, Homer Road, Solihull, 11.00
Copyright Promotions Grp., 21 Wilson St., E.C., 10.00
Dudley Jenkins, 2A, Southwark Bridge Office Village, Thrale Street, S.E., 10.00
Fletcher King, Stratton House, Stratton Street, W., 4.00
Matthew Clark, Whitchurch Lane, Bristol, 3.00
Precoat Intl, 62, Threadneedle Street, E.C., 12.00
Vendome Luxury, Spencer House, St James's Place, S.W., 12.00
VHE, Engine Lane, Shafton, Barnsley, 10.00
Westminster Health Care, RAC Club, Pall Mall, S.W., 10.00

BOARD MEETINGS:
Finals:
Allied Leisure
Amstrad
Haggas (John)
Headway
Interims:
Calderburn
Candover Invs
Charter
CLS
Clyde Petroleum
Courtaulds Textiles
Eadie
European Leisure
FBD
GEE Intl
Graham
JBA
Jermyn Inv Prop
Kingsbury
Middlesex
Parity
Pendragon
Peptide Therapeutics
Rexam
RJB Mining
Scotia
Scruttons
Severfield-Reeve
Spring Ram
Stag
Williams
Wyevale Garden Centres

■ WEDNESDAY SEPTEMBER 11
COMPANY MEETINGS:
AIM, New Connaught Rooms, Great Queen Street, W.C., 12.00
ASDA, Pudsey Civic Hall, Dawsons Corner, Pudsey, Leeds, 11.00
Associated British Engineering, 78, Chapel Street, Thatcham, Berkshire, 11.30
Budgens, Skinners' Hall, 8, Dowgate Hill, E.C., 11.00
Debenham Tewson & Chinnocks, 30, Throgmorton St., E.C., 11.00
Esrodis Electron, Roman House, Wood Street, E.C., 12.00
Fleming Intl High Income Tst, 25, Copthall Avenue, E.C., 3.00
Smith (David S), St James Court Hotel, Buckingham Gate, S.W., 10.30
Wagon Industrial, Weston Park, Weston-Under-Lizard, Shropshire, 12.30

BOARD MEETINGS:
Finals:
Adscene
Gent (SR)
Interims:
Associated British Ports
Barr & Wallace
British-Borneo
Christies Intl
Coats Viyella
Crean (James)
Devro
Expamet Intl
Gowrings
Independent News
Instem
Kingfisher
Kleinwort Smaller Cos Inv Tst
London Forfaiting
Premier Oil
Prudential Corporation
PTS
Stat-Plus
Telepec
Trinity Intl

■ THURSDAY SEPTEMBER 12
COMPANY MEETINGS:
Birkdale, 24, Chiswell Street, E.C., 11.00
Breeway, Londesborough Arms Hotel, High Street, Market Weighton, 11.30
Bulmer (HP), Cider Mills, Plough Lane, Hereford, 2.30
Celebrated Group, 166, City Road, E.C., 11.00
Games Workshop, Ilkeston Co-op, Wharncliffe Road, Ilkeston, Derbyshire, 10.30
Gibbon, 22, Coleman Fields, N., 12.00
Hazlewood Foods, Assembly Rooms, Market Place, Derby, 12.00
Mosaic Inv., 20 Farringdon Rd., E.C., 10.00
Ryland, National Motorcycle Museum, Coventry Road, Bickenhill, Solihull, West Midlands, 10.30
Wintrust, 21, College Hill, E.C., 12.00

BOARD MEETINGS:
Finals:
FII
Korea-Europe Fund
Logica
Sirdar
Usher (Frank)
Interims:
APV
Baird (William)
Bentalls
British Aerospace
British Fittings
BTR
Capital Corp
Caradon
Enterprise Oil
Folkes
Headlam
Highcroft Inv Tst
Joyes
Laing (John)
Lambert Howarth
Legal & General
Lionheart
Memory
PCT
Royal Dutch/Shell
RTZ
Russell (Alexander)
Scottish Television
Spirax-Sarco Engineering
TLS
United Biscuits
United News & Media
Wilson (Connolly)
Woodchester Inv

■ FRIDAY SEPTEMBER 13
COMPANY MEETINGS:
Barbour Index, New Lodge, Drift Road, Windsor, Berkshire, 4.30
Border Television, Television Centre, Carlisle, Cumbria, 12.00
Grosvenor Inns, Barge Central, Bar Central, Richmond, 11.00
Hampson Industries, Copthorne Hotel, Merry Hill, The Waterfront, Level Street, Brierley Hill, West Midlands, 12.00
Reliance Security, Glaziers Hall, London Bridge, S.E., 1.00
Stanley Leisure, Stanley Albion Casino, Cromwell Road, Castle Irwell, Salford, 11.00
Tomkins, Four Seasons Hotel, Hamilton Place, Park Lane, W., 11.00

BOARD MEETINGS:
Finals:
Courtyard Leisure
Interims:
Bostrom
Eyecare Products
Wembley

Company meetings are annual general meetings unless otherwise stated.
Please note: Reports and accounts are not normally available until approximately six weeks after the board meeting to approve the preliminary results.

BIRMINGHAM AND THE WEST MIDLANDS

Upturn in private investment

One of the region's key strengths is its ability to unite both private and public sectors to champion its cause, writes Richard Wolffe, Midlands correspondent

To outsiders, the furious row betweeo Birmingham and London over hosting the Millennium Exhibition may have seemed little more than a petty episode of regional rivalry. But few recent events have highlighted so vividly where the West Midlands stands within the UK. Even fewer have raised psssions so high within the region.

To business and political leaders in the West Midlands, the bid to host the nation's celebrations of the year 2000 was a sign of the region's economic strength, as well as its local pride.

Where its London rival appeared reluctant to stage the event, Birmingham was only too keen to enter the spotlight. Where London *lacked funding, Birmingham* had already arranged its finance and calculated ths long-term commercial gain for its proposed host, the National Exhibition Centre.

The Millennium Commission's eventual rejection of Birmingham reinforced the region's suspicion that it has always suffered from an anti-Midlands prejudice in the capital. However, the bid also underlined one of its key strengths – the ability to unite both the private and public sectors to champion its own cause.

It is this strength which has led to the current regeneration of Birmingham city ceotre. Blighted by the drab concrete developments of the 1960s, the heart of the region suffered years of neglect before the council invested *in improving* the streets and squares on its own doorstep, and in building the popular International Convention *Centre, (ICC).*

The result has been a significant upturn in private investment in the city centre this year. Hammerson, one of the UK's largest property companies, plans to spend £250m ($387.5m) revitalising the Bull Ring after buying the huge shopping centre for £30m earlier. The project will do more than lift the city's retailing image. It will also rebuild part of the city's inner ring road, breaking Birmingham's infamous "concrete collar" which drives pedestrians through hostile subways and constricts its shopping areas.

Ironically, one of the city's key investment projects also *relies oo Millennium Commission* funds. Millennium Point is a classic West Midlands partnership between the council and a consortium of local businesses to build a £110m high-tech exhibition centre.

Backsd by substantial European funds, the futuristic centre is intended to showcase science, manufacturing and the echievements of the region since the industrial revolntion.

Unlike the failed exhibition bid, the project seems likely to win £50m of Lottery funds. As with the ICC, the private sector is expected to invest around the landmark buildings and so regenerate a largely derelict quarter of the city centre.

Birmingham's millennial confidence is directly linked *to the West Midlands' economic* recovery over recent years. While doom-mongers predicted the terminal decline of its manufacturing during the 1980s, the region is now heading towards the next century with renewed belief in its traditional industries.

The automotive industry, which dominates the region's manufacturing output, has been boosted by inward investment from BMW into Rover and Land Rover, and by Ford's £400m project to build the new Jaguar saloon in Birmingham. Companies such as the van-maker LDV – formerly Leyland Daf – have recovered from financial collapse and begun to focus on international markets.

However, in the *short-term, at least,* the region's economic performance seems to be more mixed. While the West Midlands ontpaced the UK in 1995 with a 2.9 per cent growth in output, this year the region's manufacturing output has slowed and in some sectors stagnated.

According to forecasts from Business Strategies Limited, the region's growth is expected to fall to 1.5 per cent, compared to a national average of 2.1 per cent. On the one hand, engineering is likely to expand, and Birmingham council's economists forecast that the region's motor industry could grow by up to 6 per cent a year over the next decade.

In contrast, Business Strategies says the region's *traditional* metals, *minerals* and chemicals sectors are set to contract. *Such caution* is reflected by surveys from Birmingham chamber of commerce, which indicates thet 45 per cent of the city's manufacturers feel thsir turnover is likely to remain static over ths next 12 months.

The picture is less comforting in the region's job market, where ths relative strength of manufacturers is proving to have little direct impact on employment levels.

Although the West Midlands is close to the national everage with an unemployment rats of around 7.5 per cent, the prospects for manufacturing jobs seem poor. Manufacturing employmeot is expected to fall by 2,000 in the third quarter of this year. Instead, job creation *seems likely to come from* the tourism and leisure *sectors.*

John Beverly, the Bank of England's agent and chief representative in ths Midlands, says: "Many of the region's manufacturers have significant investment programmes now in order to face up to international competition. But in many cases the investment is designed to make more productive use of the labour they have got, or to reduce it. The number of firms likely to be recruiting large numbers of people is therefore very limited.

"In the service sector, there *is* also likely to be more rationalisation in banking and insurance. Bnt, in contrast, areas such as themed pubs and restaurants are doing extremely well – even when people are not feeling terribly well-off they are *spending in* these sectors. A lot of these have significant investment programmes, and tourism is becoming quite a significant part of the regional economy."

One of the few rays of hope for new jobs is Birmingham airport, which won a hard-fought planning battle with Solihull councillors over a £400m expansion strategy earlier this year. The expansion, which will double the airport's capacity over 10 years, is forecast to create up to 7,000 jobs. Such structural changes in the regional economy are a priority for the business and political leaders of the West Midlands. Most are keen for the region to diversify away from manufacturing – which still accounts for 30 per cent of its *output* and 22 per cent of employment. Moreover, the bias towards older industries is seen as something of a hindrance to the region's progress. The lack of newer, high-value industries – such as electronics and biotechnology – was identified as e key weakness in a study of the competitiveness of the West *Midlands, published* by the department of trade and industry this summer.

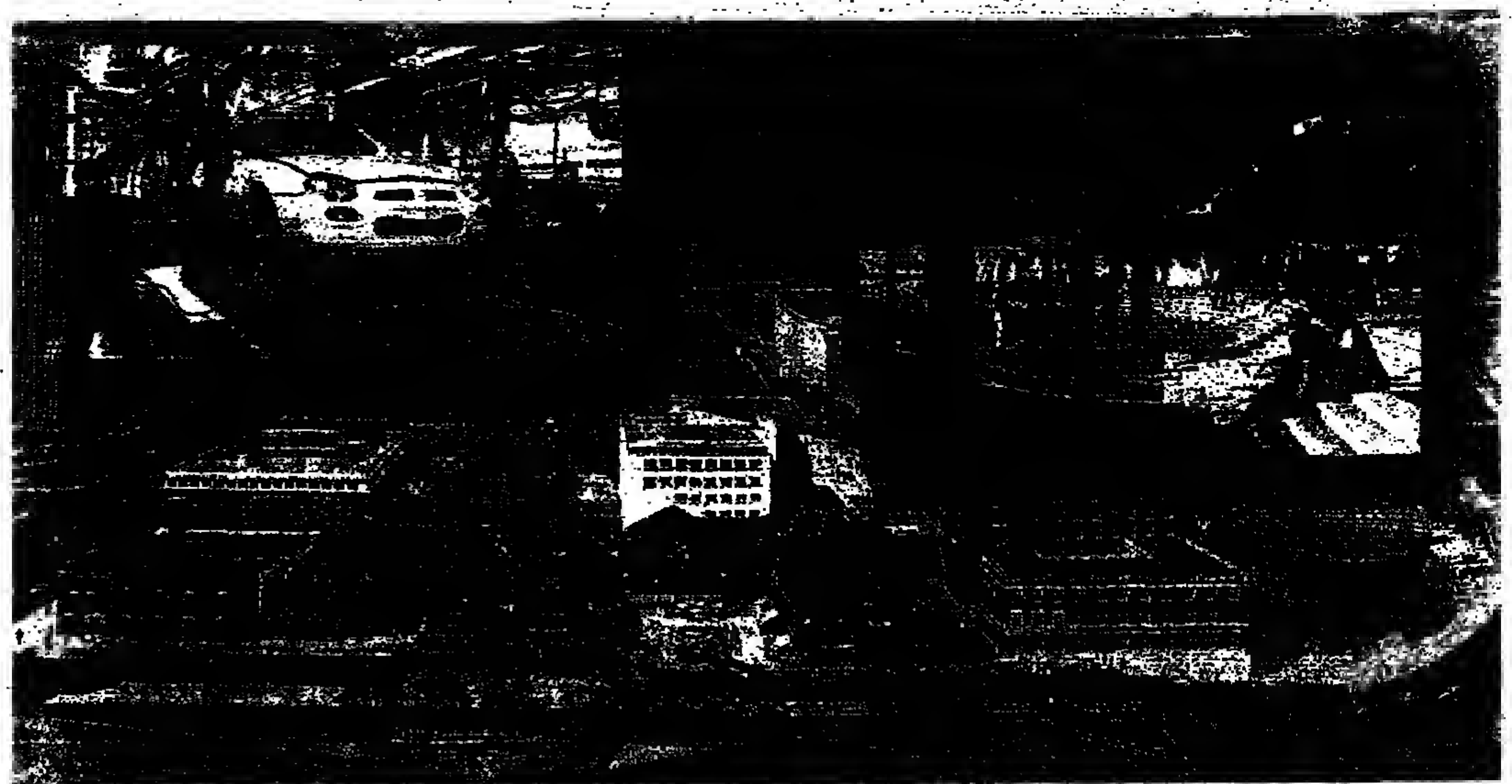
The result is a level of productivity which lags every region within the UK except Northern Ireland. The region's industry is also dogged by a poor record on innovation and investment.

But for David Botterill, chief executive of the Engineering Employers' Federation in the West Midlands, such criticism should not be seen as a depressing view of the region's prospects.

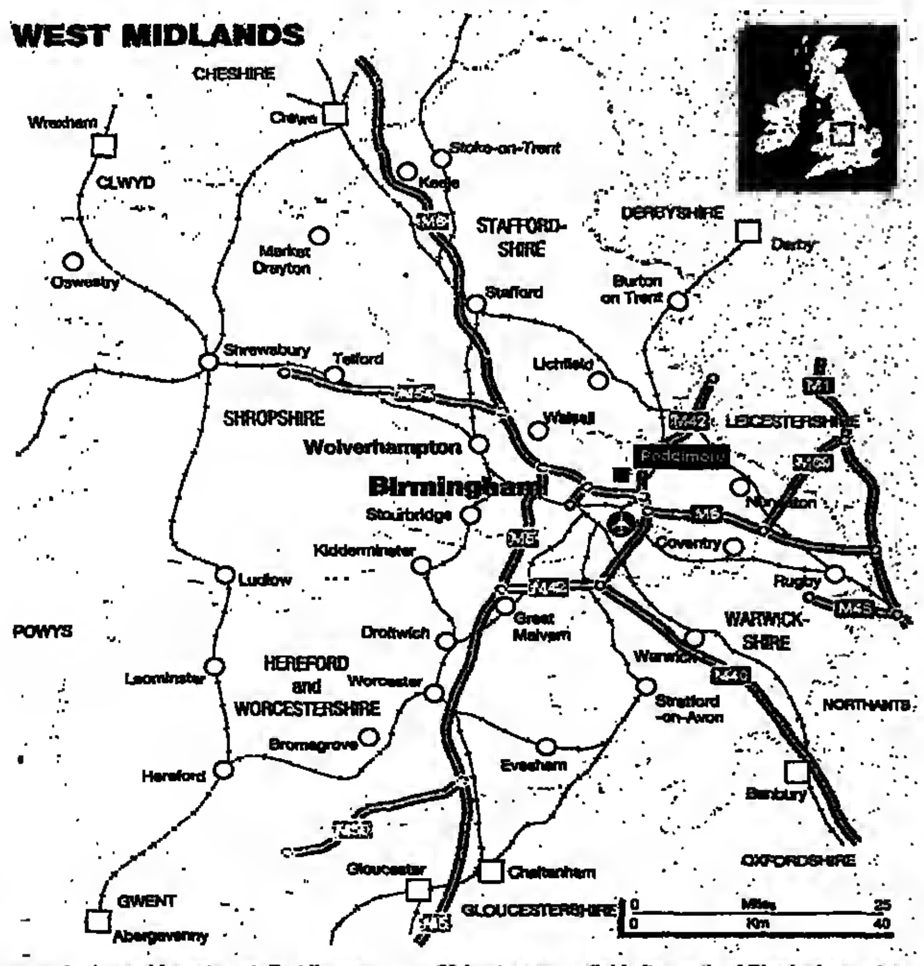
"It is true that there is a significant number of underperforming companies in manufacturing, but that is a reflection of the region's heritage as well as a consequence of a radically changing situation," he says.

"Here the process of change has perhaps been less stark than other *regions*, but *rather* longer drawn out. We have not gone through ths terrible traumas of south Wales, with the demise of steel and coal, or the Clyde with the loss of shipbuilding.

"The important thing is to see how many good compenies are coming through, and how we have a better balance and a better spread of manufacturing than most others. There is going to be continuing change over the next decade but, on balance, I think we will come ont *rather* better than worse."



Brindleyplace, Birmingham, is the largest city centre development under construction in Britain. Also pictured, top left, is Rover Groups's advanced car assembly line



Scope for inward investment: Peddimore, a new 56-hectare greenfield site north of Birmingham, aims to attract 'flagship' high technology projects: see report on Page 3 of this survey

Automotive Industry • By Richard Wolffe

Proven international strength

The region's car producers have fought off tough competition from Detroit

As the centenary year of the motor car comes to the end of the road, the West Midlands automotive industry has good reason to feel confident about its immediate future.

After decades when gradual decline seemed the only prospect, the leading motor manufacturers, as well as thousands of suppliers, are preparing for substantial growth into the new millennium. According to Birmingham Council's economists, the region's motor industry has the potential to grow by 6 per cent a year over the next decade.

David Fletcher, head of the automotive group at Deloitte and Touche accountants in Birmingham, says: "The region has evolved into something that is now attractive to overseas investors in terms of the critical mass that is here. The skills that are now available – in terms of both cost and quality – have led to a lot of import substitution."

The biggest single recognition of this international strength was Jaguar's confirmation in March that it would build its new X200 saloon at its Castle Bromwich plant in Birmingham. Jaguar's decision was a hard-fought triumph for the region, which beat stiff competition from another Ford-owned plant in Detroit.

The £400m project, backed by £80m of government and European aid, is likely to create 1,300 jobs and safeguard another 3,000 at Jaguar alone. Among suppliers, it is predicted that around 5,000 jobs will be created.

Jaguar's confidence is matched by home-grown companies, such as LDV, the Birmingham-based van-maker, which has experienced a remarkable turnaround over the last three years. When its predecessor Leyland-Daf collapsed in 1993, the new company was written off by experts, who said it was heading for bankruptcy.

In reality LDV's financial record could hardly have been more different. In its first year pre-tax profits stood at £7.05m on sales of £63.7m. By last year, profits had risen to £23.3m on sales of £218m.

The company, now privately owned, is looking for international partners to develop new vehicles and global markets. Although production has doubled in three years to 400 vans a week, LDV is still a small player in the van market with almost all its sales in the UK. Agreements have already been signed with Andoria in Poland and AAD in South Africa, but LDV is keen to find a presence in the Far East.

At Rover itself, the scale of investment is the most impressive sign of the long-term confidence of its owners, BMW. The Longbridge plant in Birmingham has a new £43m paint shop, while Land Rover in Solihull is now constructing a huge £80m paint shop – billed as the largest new building outside London.

Rover's strategy is to move away towards niche cars. Ian Strachan, director of corporate communications, says: "We do not see ourselves as volume car manufacturers now. Although we are the biggest producer in the UK, our cars are more specialist."

That strategy means mixed news for Rover's operations in Longbridge which launched no less than three new models last year. Longbridge, which started life 90 years ago, builds the exclusive MGF sports car as well as the classic Mini – set to become a range in its own right. But it also makes Rover's only remaining mass market car – the 100, previously known as the Metro – whose future is in doubt.

However, BMW's biggest investment is yet to come. BMW and Rover are working on a new engine strategy, as the company believes it will lack capacity into the next century. While BMW's current operations in Germany and Austria are strong contenders for the new engine plant, Rover says it is also looking at the former power station site at Hams Hall, near Birmingham – now a distribution park with a Channel Tunnel freight terminal.

Meanwhile, in Coventry, Peugeot's Ryton plant is still waiting to learn of its fate from its French owners. Coventry now produces just the 306 model even though it is in principle a two-model plant – when the 306 was launched in 1993, the 405 was also built alongside.

Peugeot says it has yet to make a definitive decision on whether there will be a second model, but it says the project is "under serious discussion". Such discussions are not helped by this summer's industrial dispute over linking the UK plant's holidays to French holidays.

Across Birmingham and the West Midlands, such rapid changes among the car companies are multiplied through the hundreds of large and small suppliers in the region.

Rover alone has cut its supplier-base from around 2,000 five years ago to less than 500 today – s process mirrored across the industry, and one that is set to continue over the next five years.

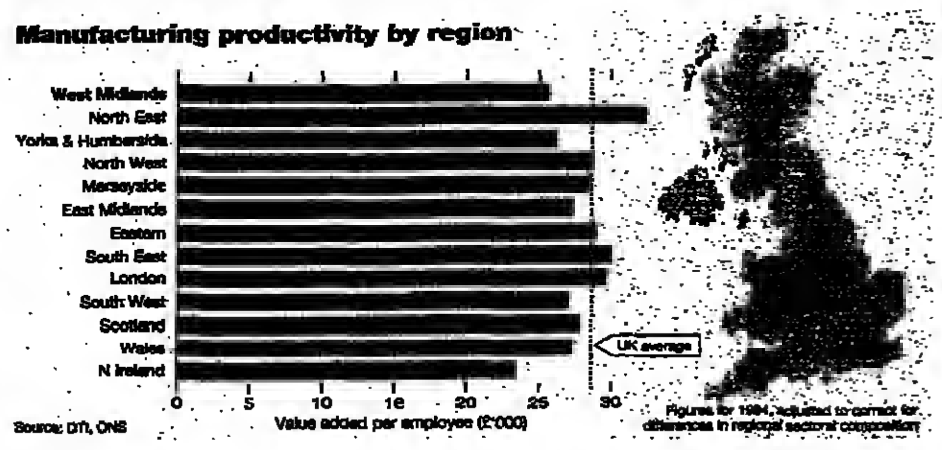
Such structural changes have led to a quickened pace in corporate deals between suppliers, as well as rapidly

Continued on next page

■ **Standards in regional manufacturing** • By Richard Wolffe

Victim of its own success

Smaller industrial companies have not kept pace with those of other regions



For West Midlands manufacturers, a government-backed report on the region makes stark reading. According to the department of trade and industry – which published its study of competitiveness in July – the region's manufacturing sector suffers from relatively poor levels of productivity, innovation and investment.

Although the West Midlands represents around 8.4 per cent of the UK's output, it lags behind every other region except Northern Ireland, when measured by the value added by each employee to the production process.

For those leading the sector, the report highlighted an issue which has dogged their operations in recent years. Many larger manufacturers have rapidly reviewed their production processes and management structures – mainly led by the example of Japanese investors, and by the desire to find new export markets. But their smaller suppliers – and there are an estimated 40,000 small manufacturing companies in the region – have yet to respond to such changes.

The West Midlands appears partly to be a victim of its own manufacturing success. According to Tony Bradley, policy director at Birmingham Chamber of Commerce, the region has reacted more slowly to manufacturing changes because it did not suffer the dramatic industrial decline of such regions as the North East or South Wales.

"It was almost four years after the recession at the beginning of the 1980s that the changes hit this region, so we did not start responding until other regions were emerging from recession.

"Companies such as Rover have changed their production methods significantly and gone to their major suppliers to help them do the same. But it is a slow process further down the supply chain and it has not yet reached the lower tiers, although there are good examples emerging there now."

Two projects have recently set out to speed up that process of lifting standards among the smaller manufacturers in the region.

By far the largest is the £29m World Class Supplier programme aimed at around 900 small and medium-sized companies in the West Midlands motor industry. Backed by about £12m of European grant aid, the project was launched in June with the stated aim of raising standards of quality to meet those in Japan, the US, France and Spain.

Led by Birmingham's Training and Enterprise Council (Tec), the project is intended to spread best practice and improve collaboration through the supply chain. Its main methods are to benchmark companies against international standards, and identify areas of under-performance. Both methods should point to specific measures to improve standards.

With the involvement of the major vehicle companies such as Jaguar, Rover and LDV – as well as the largest suppliers, such as GKN and Lucas – the project offers suppliers a £10,000 credit for help in such areas as tooling, design and delivery.

A smaller scale project, led by the private sector, aims to do a similar job among the wider manufacturing sector by improving the work of such bodies as the region's Tecs and Business Links.

The West Midlands Manufacturing Challenge also aims to lift standards by sharing experiences between large manufacturers and smaller companies. The Challenge – led by Rover and Wagon Industrial, the engineering group – studies two measures of a company's performance – the productivity of each employee and the ratio of working capital to sales.

John Hudson, of Wagon Industrial, says: "Many of the techniques used by older companies are out-dated and this is a considerable frustration to people such as Rover and Wagon. When we want to sub-contract business, for instance, it's not easy to find competitive companies.

"The result is that we in the region have a good chance of winning trade from places such as Germany, because our wages are comparatively low, but this is offset by our low productivity.

"All we want to do is to try and help sort out the productivity of smaller companies by re-positioning the Business Links and Tecs, which lack manufacturing specialists.

"It is a question of demonstrating best practice and spreading the word."

Companies such as Rover have changed their production methods significantly and gone to its leading suppliers to help them do the same, but it is a slow process further down the supply chain

Robots at work, welding Rover 400 car bodies

■ **General engineering** • By Richard Wolffe

Frustrations for exporters

Many producers aim to diversify away from traditional metal-based manufacturing

It has been a frustrating year for many of the region's general engineering companies. Hopes of sustained growth have been toned down as home orders have flattened and European export markets have failed to shine.

However, contrary to the rather bleak picture painted by national statistics, the region's engineers report a mixed bag of sectoral strengths and weaknesses. David Botterill, chief executive of the Engineering Employers' Federation in the West Midlands, says: "We are still seeing about 70 per cent of businesses at – or above – the levels of last year, while around 30 per cent have seen some slackening of demand.

"Some sectors are doing pretty well – the electric and electronic companies are seeing reasonable growth. But the situation is also mixed in export markets, with France and Germany not experiencing the manufacturing output growth they had anticipated. Meanwhile, companies operating in the US have progressed steadily. And those in the Pacific Rim are still reporting very good business."

Such variability has reinforced many larger engineers' belief in the virtue of diversifying away from their historical base, producing lower-value products for home markets. The result is a rapidly changing map of some of the region's most traditional, metal-based manufacturing sectors.

Glynwed International, the diversified engineering group, last month announced it would sell more than 20 of its more traditional companies. Glynwed said the companies – including such areas as copper tubing, cast iron and PVC sections – were too involved in domestic markets and commodity-type products. According to David Larkam, engineering analyst at Albert Sharp brokers, Glynwed is following a trend which has significant implications for the structure of the region's engineering sector.

"A lot of these larger companies are looking for a higher quality of earnings as they have seen the ratings that groups such as Siebe and TI are on," he says. "To get better growth you have to forsake the lower value-added, metal-bashing businesses. Larger companies are selling-off their traditional areas of West Midlands manufacturing, which will probably end up going through the management buy-out route.

"There will be rationalisation in certain areas for these companies. But they're the base of the supply chain, and will survive in one form or another."

Pressure on auto parts business

Continued from Page One;

changing strategies within individual companies. For instance, BSG International aims to split itself into two companies to concentrate on its car parts business while selling or floating its motor dealership division.

In components, BSG is developing joint ventures across the world, including a European deal with Koito Manufacturing of Japan to develop its range of lighting products.

Through its Britax brand, the company is also planning to develop in the after-market of spare parts, where margins are higher than the traditional market supplying manufacturers.

Richard Marton, chief executive, says: "Manufacturers' requirements are changing and we are becoming much more independent, which allows us into the 'after-market'. They are paying less for tooling and relying on us to service customers better."

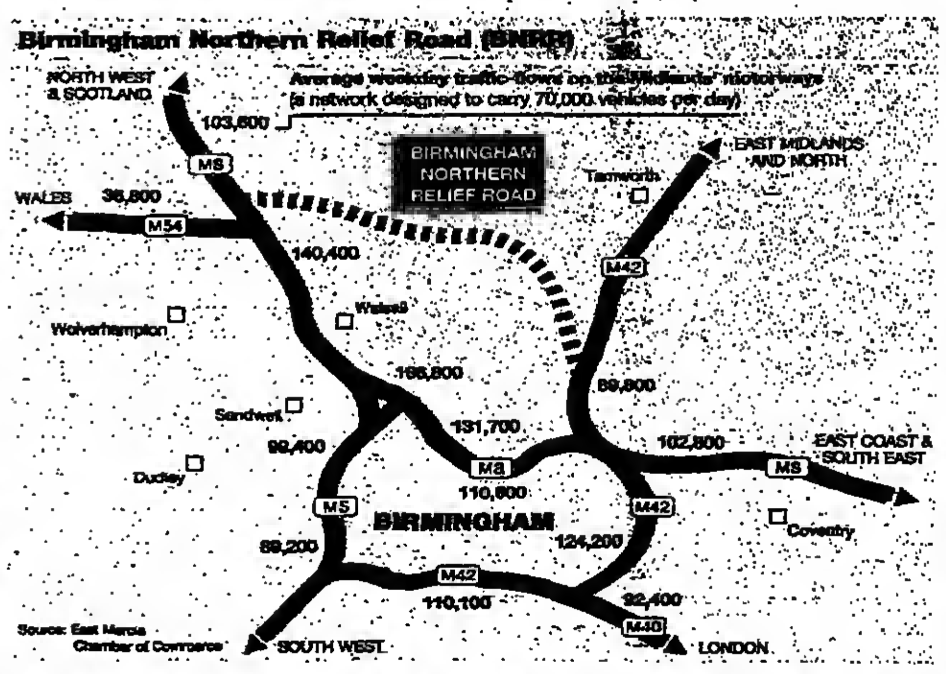
The challenge for the West Midlands' panoply of automotive suppliers is whether they can maintain the pace of change as the structure of the industry rapidly evolves. David Fletcher, of Deloitte and Touche, says: "Rationalisation of suppliers does not necessarily mean reducing capacity. It means re-ordering existing capacity. In fact, it may well mean an increase in capacity to meet the increasing demands of the vehicle assemblers.

"The bigger threat to suppliers here is that the low-cost demands of the assemblers will lead them to look further and further afield for bits and pieces," he adds. "While the UK is low-cost in European terms, it cannot compete on a global basis on cost alone."

■ **Regional infrastructure** • By Richard Wolffe

Row over transport delays

Motorway congestion is hindering inward investment, says the business community



When the Confederation of British Industry asked West Midlands businessmen which were the most important issues for the region's competitiveness, transport took three of the top 10 positions.

Road communications were the second biggest priority, with air and rail links not far behind. For a region situated at the UK's cross-roads, transport is clearly not just one of its biggest strengths but also one of its most fundamental concerns. Parts of the motorway network carry more than 130,000 vehicles on a weekday – on routes designed for 70,000 vehicles a day.

It is hard to find a meeting of West Midlands businessmen which does not begin with a diatribe against either the region's overcrowded motorways or the declining standards of the West Coast main railway line. Such anger is doubly felt because of the delays in providing a solution to the congestion.

The principal issue for the region's road network is the Northern Relief Road, which is designed to take national traffic away from the M6 north of Birmingham. Although a year-long public inquiry ended almost a year ago, no report has been issued into the project, intended to be a privately-operated toll road. It is likely to take the environment secretary a further six months to decide on the report, and another year before construction would begin.

Such delays are already having an impact on inward investors. According to the West Midlands Development Agency, some prospective investors are now searching for sites to the east of the M6 for quicker links to London and the Channel Tunnel.

In comparison to the motorway network, the West Coast main line – providing InterCity rail services from London to the West Midlands, North West and Scotland – has suffered from even more political considerations. Although the line was promised a £1bn modernisation project which would begin last summer, the scheme has been thrown into confusion by the government's privatisation strategy.

The line's problems are clear to many regular travellers on the flagship London-to-Birmingham service. The 113-mile journey ought to take around one hour and 42 minutes. In contrast, on the East Coast main line, it takes just one hour and 47 minutes to travel the 189-mile journey between London and York.

While Railtrack has already awarded contracts to develop the line's new signalling system, the financing of the full project remains unresolved. The franchise for InterCity West Coast – once one of the first in line for privatisation – has been delayed until later this year.

Andrew Millward, of the West Midlands Business Focus Group, says: "Our concern is that while the railway is getting by at the moment, things are going to get dramatically worse over the next few years as more and more time goes by before the very urgent work is done. Our concern is less about today's problems and more about tomorrow's."

In contrast, the privately-funded work on a rail freight terminal in the region continues strongly. Hams Hall, the site of the former power station at Coleshill, near Birmingham, is already moving towards its stated intention of becoming a £380m national distribution park, with a terminal linked to the Channel Tunnel. Bass the brewers and NFC logistics have committed themselves to a 14-acre site for drinks distribution, which is likely to be ready this autumn.

But the real glimmer of hope for the region's transport system is the hard-won planning victory of Birmingham airport to ensure its £400m expansion. The airport plans to expand to almost twice its current size within 10 years, but was almost blocked by the environmental concerns of Solihull councillors.

After agreeing to a series of concessions over night flights, the airport woo approval and, just as importantly, secured its £130m deal to sell a 40 per cent stake to Aer Rianta, the Irish ports operator.

However, it is the region's rail and road networks which pose most problems for the competitive position of Birmingham and the West Midlands. Few in the region can see an immediate solotion – at least, until the general election is over.

David Maxwell, chief executive of Birmingham City 2000, which represents the city's financial and professional businesses, says: "It looks brilliant on the map, with all those blue lines of motorway, but it is only when you are sitting there in a traffic jam on the M6 thet you realise the reality.

"I think we have lost-out in the region because central government finds it politically too difficult to do anything before the general election. And if they do not decide something soon, we'll find it increasingly difficult to deliver what we promise."

REINSURANCE

A flurry of acquisitions has emphasised the demand for reinsurers that have the financial clout and geographical spread to absorb big risks. Ralph Atkins examines the reconstruction taking place in the industry

Giant leap to globalisation

Alan Shearer (left), the £15m footballer - page 8; a tornado as seen in the film Twister (top) and the aftermath of a hurricane (bottom) - pages 6 and 7; and (right) the bombing in Manchester - page 8

It was, says Hans-Jürgen Schinzler, chairman of Munich Re's management board, "a great etep forward" for tbe German group. But the $3.3bn acquisition by the world'a largest reinsurance company of US-based American Re last month also symbolised the giant strides taking place in the international business of protecting conventional insurance companies against big losses.

The German group's deal was one of a rapid succession of moves by the biggest reinsurers to build global businesses that can withstand the rising cost of natural disasters and ride an increasing competitive trading environment. "It was like a game of musical chairs. There really were just e few chairs," says Gary Parr, bead of global insurance at Morgan Stanley.

As reinsurance underwriters and brokers prepared for their annual rendezvous in Monte Carlo, they had barely time to pause for breath. Munich Re's acquisition came only a month after US-based rival General Re announced plans to buy National Re for $940m. And, late in August, Swiss Re, the second biggest reinsurer, swooped to spend £1.75bn buying Mercantile & General, the UK-based life and bealth insurer which its owner, the Prudential Corporation, had lined up for flotation.

Driving the flurry of acquisitions have been forces as strong as any earthquake. Most powerful has been the "flight to quality" among reinsurance buyers. There is a demand for reinsurers that have the financial clout and geographical spread to absorb big risks.

John Pelly, chairman of non-marine reinsurance at Willis Corroon, the insurance broker, says: "There is a concern about what happens five or 10 years down the line, not knowing whether their reinsurer is going to be there to pay tha claim."

But there are other changes taking place in the reinsurance world which require strategic thinking by the market's participants. In prospect is a significant revival in fortunes in the London insurance markat now that Lloyd's of London appears to have secured its financial future. No one expects a big impact immediately. Lloyd's underwriters are wise enough to avoid expansion at a time wben tbe competitive pressures are mounting.

But the troubles of Lloyd'a over the past five years have created opportunities for others – particularly in the tax haven of Bermuda. Now, Lloyd'e has made a break from the past, it could return to the offensive. David Rowland, chairman, says: "The upsurge of goodwill towards Lloyd's will be phenomenal."

Bermuda, for its part, is keen to build on its extraordinary growth in the past few years. The island'a etrongly-capitalised catastrophe reinsurers are diversifying into new products and markets, including London and the potentially vast Asian markets.

The increasing maturity of Bermuda'a biggest companies, coupled with the revival at Lloyd's, will increase tha competitive pressures faced by reinsurers which have already sent reinsurance rates tumbling.

The absence of large-scale natural catastrophes in the past few years has curbed claims – even last year's violent Caribbean hurricane season had less impact than feared. The stronger balance sheets that have resulted have, in turn, encouraged underwriters to lower premiums to maintain or build market share.

Rete cuts of as much as 20 per cent were not uncommon at the New Year renewal season. And Stephen Riley, the chief executive of Swiss Re (UK), warns premiums "are about to cross the murky water between what is just about an acceptable commercial rate and an unacceptabla rate".

Some believe the consolidation trend might stem price cuts as larger groups become more professional and control larger market shares. But that might prove to be wishful thinking. When mergers take place, there are economies of scale to be gained which then allow products to be offared on more competitive terms. Meanwhile, smaller reinsurers, faced with the threat from increasingly big rivals, seem to have taken pre-emptive moves to retain business by cutting their rates first.

At the same time, reinsurers are finding that the nature of thair product is having to change. Mr Pelly of Willis Corroon points out that in a buyers' market, reinsurers are having to offer an increasingly sophisticated range of products to clients aware that conventional insurance exposures are only some of the risks to which they are exposed. "They are going to have to absorb other types of exposure – to interest rates, currency movements and equity markets, for example," be says.

Reinsurers are having to think beyond their conventional risk transfer products. Thay are increasingly building expertise in asset management and consulting – rather than relatively-simple reinsurance "commodity" products.

Boundaries between reinsurance and conventional insurance are breaking down. One of the attractions to Munich Re of American Re was the latter's expertise in providing reinsurance to organisations such as public authorities which are increasingly avoiding buying insurance from normal suppliers. Instead they are setting up their own low-cost "captive" insurers, often off-shore. American Re then provides reinsurance to the "captives".

Perbaps the biggest threat to reinsurers could be the so-called "securitisation" of reinsurance risks. Here the boundaries between the reinsurance world and capital markets are becoming blurred. The idea, in its eimplest form, is that the capacity of reinsurers is insufficient to cover against the biggest risks – say a $100bn earthquake in California – and that, instead, capital markets ahould be tapped.

USAA, one of the largest US motor and household insurere, this summer tested interest in bonds on which the returns would depend on the incidence of hurricanes. Holders would surrender their principal if USAA were to suffer more than $1bn in claims caused by a single hurricane in the next year.

As envisaged at present, such prodncts would complement, rather than threaten, traditional reinsurance. They would provide cover that even the biggest reinsurers are unwilling to provide. It is far from clear that such products can be priced at an attractiva lavel to make their usa widespread or that non-specialist investors would continue to provide capital on as long-term a basis as expert reinsurers.

The danger, bowever, is of such products developing to such an extent that they eat into traditional reinsurers core markets. Michael Butt, chief executive of Mid-Ocean, the Bermuda-based reinsurance company, says: "To say that it is a risk to the industry is really to extend the potential to incredulity at this stage. But things happen very quickly in financial markets."

Either way, the reinsurance industry knows it cannot escape the seismic forces affecting the sector. As the nature of products change, reinsurers will be looking to add to the range of skills they can offer – and for services that can command a higber premium than basic commodity products.

The pace of consolidation may slow; the perceived wisdom is that most of the opportunities for the biggest reinsurers to make substantial purchases have been exhausted. But evolution never stops. As reinsurance converges with other financial services sectors, Mr Parr of Morgan Stanley, ponders: "In the next five years, will a large reinsurer merge with a large investment bank or merchant bank? I think it is a possibility."

■ **London market:** by Ralph Atkins

Lloyd's emerges into the daylight

The turnaround in fortunes is leading to big changes in the London market

Lloyd's of London is back. The prospect of the insurance market finally implementing its recovery plan – which took more than a year to construct – marks a remarkable turnaround for the 308-year-old institution. The question now is, does the saving of Lloyd's foreshadow a revival in fortunes for the whole London international insurance market?

Changes might take some time to become perceptible to the outside insurance and reinsurance world. The sector is in a downturn and those who manage Lloyd's syndicates know it would be unwise to expand rapidly.

Herbert Haag, chief executive of Bermuda-based reinsurer Partner Re, says: "It could be suicidal if Lloyd's tried to expand in today's weak market conditions. The insurance world does not believe that Lloyd's should have a greater role than it has at the moment."

But already the turnaround at Lloyd's is leading to profound changes in the way the market works, with inevitable knock-on consequences for other reinsurers. The recovery plan, *Reconstruction & renewal*, included a £3.2bn out-of-court settlement offer to loss-making Names, the individuals whose assets traditionally supported the insurance market. That should end most of the litigation which has blighted Lloyd's reputation and crippled its debt collection.

The plan also set up Equitas, a giant reinsurance company which is taking responsibility for billions of pounds of outstanding US pollution and asbestos liabilities. This has created a "new" Lloyd's, unencumbered by its past problems.

David Rowland, Lloyd's chairman, says: "We have evidence there is a real place for Lloyd's in the future. People want Lloyd's and London to be a clearing house for international business. We have got a good client base to work from. The upsurge of goodwill towards Lloyd's will be phenomenal."

As Lloyd's emerges, blinking into the daylight, the most noticeable difference is the transformation in its capital base. Once Lloyd's was backed only by wealthy Names.

Now it also consists of a variety of fast-evolving limited liability companies, including increasingly large insurance groups operating under Lloyd's umbrella, many of them listed. In turn, that is changing the nature of security – or capital – backing a Lloyd's insurance policy.

The past few months have seen a flurry of takeover activity. This has partly reflected increased appetites for places on the best Lloyd's syndicates. But it has also been due to the constraints on expansion and the pressure, as elsewhere in the reinsurance world, to consolidate and seek cost efficiencies.

In particular, the pure "spread" corporate investors – which were the first to join when corporate capital was admitted for the 1994 account – are disappearing. Instead they are merging with managing agents, which run syndicates, to create integrated vehicles combining underwriting and capital under one roof.

The traditional Names remain. Those who have survived Lloyd's worst years want to profit from its revival. But the increasing dominance of corporate investors – which had supplied some £1.6bn to support underwriting by the start of this year – is, in turn, encouraging a debate on the future organisation of the Lloyd's market.

At the top of many of the newer investors' wish list is an end to the system of "mutualisation" – the principle of the strongest participants having to help pay the claims when weaker members cannot meet obligations. Michael Butt, chief executive of Mid-Ocean, the Bermuda reinsurer which is acquiring the Brockbank agency at Lloyd's, says: "For major companies to have the risk of 'mutualisation' from rogue syndicates is not an attractive component of Lloyd's."

The problem for Lloyd's is that the principle of "mutualisation" provides policyholders with assurance about its financial security and is used to underwrite the trading licences the market has around the world. It also allows smaller operations to set up at low cost, encouraging innovation and entrepreneurship. Ending mutualisation would therefore remove a defining characteristic of Lloyd's.

Similar dilemmas are thrown up by other possible reforms. For instance, there is pressure to end the "annual venture" – the system by which syndicates are re-formed annually.

David Rowland, Lloyd's chairman, has said he dislikes the system because it is inappropriate when policy claims may nowadays take many years to feed through. But the annual venture allows investors to switch funds easily between syndicates – again rewarding entrepreneurship.

Resolving such conundrums is likely to pre-occupy Mr Rowland in his final year as chairman. Debate over the future shape of the market will also affect another part of his mission – to cut costs and increase the competitiveness of services provided by the central corporation. Not until the shape of the market is clear, will Lloyd's be able to decide what services it still needs to provide. Centralised marketing functions may become inappropriate, for instance, if Lloyd's consists of only a few large operators.

One option is to spin off parts of the organisation providing claims handling, insurance policy signing and checking, accounting, training, information technology and other services into a limited company, Insurance Services. Instead of being funded by subscription, customers would pay according to use. Eventually the new company or companies could be sold to outside shareholders.

A bigger question concerns the future of Lloyd's regulatory department, which was designed for a market dominated by thousands of individual investors. The present system is not only cumbersome but expensive. Lloyd's regulatory department employs 150 people and has an annual budget of £12m. The department of trade and industry (DTI), which regulates the rest of the UK insurance industry, manages with about 120 staff on a budget of £8m.

Such debates are expected to culminate in a review of Lloyd's by the UK government – whatever its political complexion – next year and lead to a wide-ranging overhaul of legislation determining how Lloyd's operates.

The rest of the London insurance market will be watching carefully developments at Lloyd's. While Lloyd's has taken the limelight, the non-Lloyd's market has taken an increasingly large market share. As Lloyd's becomes dominated by large, listed companies, the differences between it and the rest of the London market will lessen.

And the chances are that the differences will also fade between Lloyd's and other main market associations – the Institute of London Underwriters, representing companies writing marine, aviation and transport business, and the London Insurance and Reinsurance Market Association (Lirma), representing reinsurance and non-marine insurers.

The scope for sharing back-office functions and marketing will grow. Like other reinsurance centres, the London market as a whole is having to adapt to the increased competitive pressures.

The way the market operates poses potential disadvantages. It is a "subscription" market with a number of underwriters signing up to each risk. The advantage is that big risks – such as oil rigs – which no-one insurer could underwrite alone can be covered quickly and easily. The disadvantage is that a fragmented market involves costly duplication with complex and detailed information often having to be re-keyed into different computers. It also seems weakly placed when the trend internationally is towards consolidation and larger reinsurance groups.

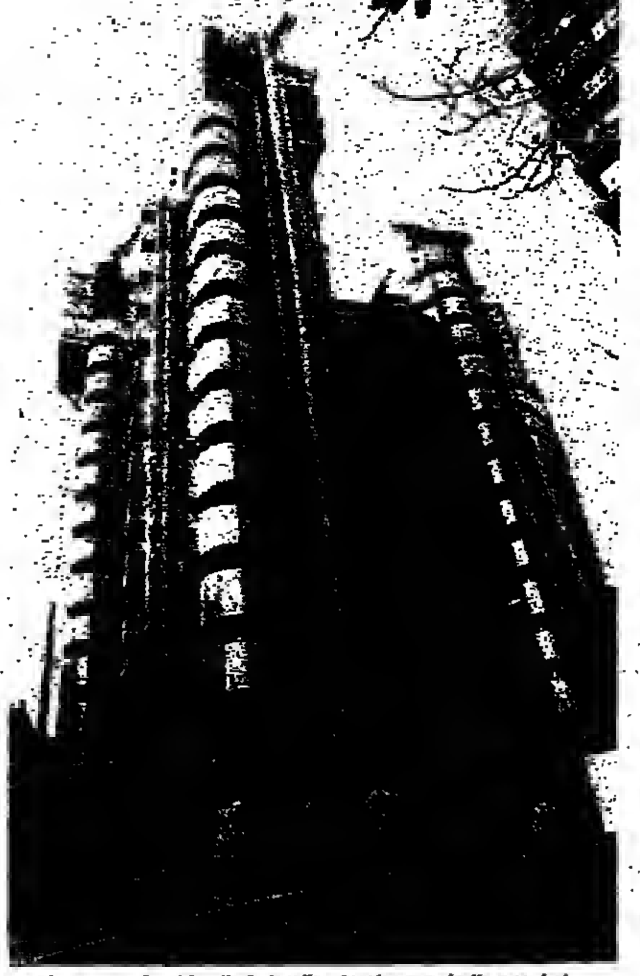
Philip Marcell, Lirma chairman, argues, however, that the market should not be seen as a collection of small operators. "You have got to look at the London market as a whole, as a competitive centre. All the subscription market is, is a very efficient way of a number of companies underwriting a risk."

Many London market companies are actually off-shoots of the world's biggest reinsurers – including Munich Re and Swiss Re. The City's insurance market, "continues to be more innovative than big bureaucratic companies situated in the US or Germany," Mr Marcell argues. Lirma is extending its reach by allowing insurers based elsewhere in the European Union to link into its electronic trading and processing systems.

Nevertheless there is widespread recognition that – like Lloyd's – the rest of the London insurance market needs to rein back costs and remove duplication. Much energy has been expended developing electronic systems including, most recently, "electronic placing support" which could replace much of the traditional face-to-face dealings between brokers and underwriters which have taken place in London since Lloyd's foundation in a coffee house.

Progress in developing electronic systems has been slower than expected. But change appears inevitable – particularly if a revitalised Lloyd's increases the pressure for reform. The conventional wisdom is that, rather than diminishing the role of a subscription market, investment in information technology will attract business into the City. A premium will continue to be attached to the ability to transact business among a large number of operators in close physical proximity.

The prize would be to restore London as the centre of the insurance world. After all, as Marie-Louise Rossi, Lirma chief executive, says: "There isn't a market like it anywhere else."



The turnaround at Lloyd's is leading to changes in the market

Top 20 reinsurers

Operating company	Country	Net written premium 1994 (US$m)	Net written premium 1993 (US$m)	Paid-up cap+surp 1994 (US$m)	Paid up cap+surp/net premium 1994 (%)
Munich Re	Germany	10,437.4	9,349.5	2,835.8	24.2
Swiss Re	Switzerland	5,100.0	4,552.0	4,245.0	88.2
General Re	US	2,374.6	2,086.8	3,770.1	158.8
Cologne Re	Germany	2,058.0	1,776.2	514.2	25.0
Gerling Globale Re	Germany	1,977.3	1,592.1	625.6	28.2
Employers Re	US	1,892.8	2,029.6	2,481.6	131.1
Hannover Re	Germany	1,741.5	1,541.4	751.1	43.1
Frankona Re	Germany	1,699.4	1,691.3	594.6	31.2
American Re	US	1,536.2	1,358.7	1,096.3	71.4
Mercantile & General Re	UK	1,514.7	1,125.7	153.6	59.1
Toa Fire & Marine Insurance	Japan	1,248.4	1,032.5	1,047.4	83.9
Bavarian Re	Germany	1,247.6	974.2	475.2	38.1
Tokio Marine & Fire Insurance	Japan	1,175.1	1,034.2	29,068.6	209.6
Eisen & Stahl Re	Germany	933.2	820.6	293.6	31.5
Transatlantic Re	US	868.4	631.7	590.9	68.0
Employers Re International	Denmark	838.3	331.3	257.1	30.7
Yasuda Fire & Marine Ins	Japan	827.9	720.7	11,621.5	117.6
National Indemnity	US	816.7	612.6	8,454.9	1,035.3
Swiss Re America	US	783.0	708.8	534.9	68.3
Axa Re	France	789.7	553.7	567.4	74.7

Source: Standard & Poor's

■ **Reinsurance collections:** by Philip Singer

Easy when you know how

Collecting funds on reinsurance policies has become a headache for many insurers

Following the troubled times of the late 1980s and early 1990s, the London market has sought and, to some extent, succeeded in improving its operational effectiveness, especially its cash collections.

Historically, credit control functions did not have a high profile due largely to the market's reliance on brokers to make reinsurance recoveries. The traditional collections process revolved around the brokers' ledger with a focus more on the reconciliation of balances than hard cash.

Invariably settlements at this level provided problems such as a lack of detail when identifying those reinsurers who were actually paying claims. Inevitably this complicated the task of cash allocation. Allocation errors often only came to light years later, perhaps when a cedant entered run-off or became insolvent, when necessity forced it to move away from a broker-based ledger to a principal-based ledger and direct approaches were finally made to reinsurers for settlement.

The market's exposure to a broker-driven collections process has been increased by the number of broker insolvencies in the past 20 years. Insolvencies have added to delays and those delays have been exploited by some reinsurers who have been only too happy to avoid their liabilities, claiming time bar as a defence.

In some cases, brokers themselves have held cash for so long that they have eventually released it to their own profit and loss accounts in the belief that after six years the money becomes theirs by default. For that to happen illustrates the complete reliance placed on a broker by a reinsured.

The London market has begun to recognise that deficiencies exist in the traditional collection methods and over the past 10 years steady improvements have been made in the way in which reinsurance collections are approached. Although still not widespread, insurance companies and some Lloyd's syndicates have created principal-based ledger systems.

From our own experience as liquidators, provisional liquidators and scheme administrators of a number of insolvent insurance companies, a principal ledger is essential for the identification of net debtors and net creditors. The fact that very few of the companies that have come into our stewardship over the past 20 years ever employed such systems speaks for itself.

For a solvent insurer, the principal ledger has many benefits including the identification of non-paying reinsurers and the ability to ensure that monies are not being paid to such companies when they are also cedants. Additionally, potential time bar problems are

> **Deficiencies exist in the traditional collection methods**

easily monitored on an individual reinsurer level. This system provides the opportunity to work in harness with the broker who is able to continue collecting from good security while the poor security may be chased directly for settlement.

The continued development of information technology within the London market also saw the introduction of The London Insurance Market Network (Limnet) in 1987. This had important collections implications for Lloyd's, the London Insurance and Reinsurance Market Association (Lirma) and Institute of London Underwriters (ILU) members due to the implementation of a central settlement system. While improving the administration and organisation of collections between members of the bureaux, central settlement also caused its share of problems. We have seen instances where a bureau member has placed much of its reinsurance outside the London market and, due to its poor security and unsophisticated collection techniques, a situation has arisen where an analysis of their accounts has shown that creditor balances were considerably less than debtor balances. With funds continually being paid out of the front door with little being recovered on reinsurance, cash flow problems are inevitable and the risk of insolvency greatly increased. A number of London market run-offs past and present have experienced such problems.

In general, the increased willingness to pursue debts directly, along with the proliferation of specialised collections consultants eager to assist in obtaining settlements from even the poorest security, is beginning to allow the market to improve cash flow and reduce bad debts.

In addition to this improved operational structure, there have also recently been some helpful legal decisions. For example, the Walbrook v Group Josi (1995) judgment effectively ended the stance taken by certain reinsurers who pleaded their own illegality to avoid debts.

Furthermore, the House of Lords decision in Charter Re v Fagan (1996) noted that collection of reinsurance recoveries was not conditional on the prior settlement of the underlying claims. While the case was brought by a plaintiff who was unable to pay claims due to its insolvency, the judgment made no distinction between insolvent and solvent companies and it will be interesting to see whether solvent insurers try to take advantage of the potential cash flow benefits this judgment could provide.

So, with the steady improvements in organisational structures and assistance from the courts it is easy to gain the impression that the collection of reinsurance is no longer one of the main problems troubling the London market. Regrettably, this is still not the case, and regulators and market analysts have been forced to reconsider the extent to which credit should be taken for ceded reinsurance.

The improvements in collection techniques generally came too late to avoid the bad debts incurred by the rash of insolvencies experienced in the early 1990s, when notable casualties included Chancellor, Orion, Charter Re and the Kwelm companies. The past 10 years have also seen a steady rise in the number of companies going into run-off.

The number of commutation deals being offered by such companies provides creditors with many difficult decisions to make. Are the deals being offered truly reflective of the reinsurer's financial status? The continuing trend of UK run-offs deteriorating into insolvency means that creditors often prefer to accept large discounts, believing that funds now are better than future dividends in a prospective insolvency.

It is in these types of areas that the implementation of a principal-based ledger can save time by identifying targets early and allowing set-

Continued on page 3

Easy when you know how

Continued from page 2

tlements to be achieved directly before the worst happens and a potential bad debt achieves its potential.

One other area which is hindering the flow of reineurance collections is the willingness of reinsurers to resort to litigation in a bid to avoid their liabilities. In particular, there has been a swing towards the analysis of reinsurance wordings where skilled lawyers draw attention to ambiguities that in happier times were blissfully ignored. The important cases heard by the House of Lords earlier this year, Charter Re v Fagan, Axa Re v Field and Hill v M&G, illustrate this point. In the latter case the litigation is far from finished and has been remitted back to the High Court. Professional arbitrators are also doing brisk business as more and more reinsurers find ways to dispute their liabilities.

It may be cynical to assume that reinsurers are prepared to put up any argument simply to delay or avoid settlement of losses, but they are often so successful in creating delay that the reinsured has no option but to litigate or arbitrate. In many cases, a compromise agreement is reached. This is a pyrrhic victory for the reinsured, with the reinsurer having earned himself several months' grece and strengthened his precious cash position accordingly.

To conclude, the message is clear that the market is slowly recognising the importance of reinsurance collections. Conditions in the market remain difficult and with cash flow always under the spotlight the prospect of reinsurers eagerly queueing up to pay their reinsured's claims are dim. However, with a positive collections strategy supported by the appropriate systems and a willingness to communicate with brokers and reinsurers, much can be done to alleviate collection problems.

Philip Singer is a partner in the National Insurance Insolvency practice of Coopers & Lybrand.

■ **The reinsurance hunters:** by Ralph Atkins

Professional claims collectors

Companies in distress can call on the services of hunters to track down amounts due

When a compeny experiences difficulties, there are always problems disentangling the assets. When large insurers are in trouble, the difficulties in determining the amounts that can be raised from their reinsurers might seem insurmountable.

In the past few years, the collection of reinsurance from insurers in "run-off" – where no new business is being taken but outstanding claims continne to be serviced – has become something of a new science.

One of the pioneers is Equitas. This is the giant insurance company which Lloyd's envisages will take responsibility for billions of pounds of Names' US asbestos and pollution-related liabilities outstanding on policies sold by the insurance market's syndicates over a number of decades. Names are the individuals whose assets have traditionally supported Lloyd's.

As well as agreeing claims with policy-holders, Eqnitas has to unravel the spider's web of reinsurance policies taken out by the Lloyd's syndicates each year – either with other syndicates or with outside reinsurers.

The task is enormous. There are about 220,000 reinsurance policies involved in the project, underwritten by 5,500 reinsurers.

It is not clear how many of those reinsurance companies have gone out of business but Equitas envisages collecting substantial sums. Initial balance sheets suggest about £4bn is expected.

It is not just the numbers involved that make the task hard. There are so many potential conflicts that have to be resolved. If, for instance, Equitas agrees to settle a claim early with a policy-holder, the impact on different reinsurers may vary – and some might benefit while others have to make payments.

Equitas is using computer modelling, as well as complex negotiations, to try to evoid upsetting the reinsurers.

As well as its own staff, Equitas is employing 70 outside organisations to help. Most are Lloyd's agencies running underwriting syndicates at Lloyd'a or specialist "run-off" companies.

Michael Crall, Equitas's chief executive, says: "Equitas has considerable scope to improve the efficiencies of intra-market, inter-syndicate transactions. It is clear, however, that we must not allow the pursuit of efficiency to jeopardise in any way the interests of our reinsurers."

Equitas is not the first large-scale operation of this kind. For the last four years, a less well-known organisation, KMS, has been handling the mess left by the insolvent Kwelm insurance companies, snbsidiaries of the failed London United Investments. The Kwelm companies went into provisional liquidation in 1992.

The scale of KMS's work is not quite as large as at Equitas. Reinsurance recoveries of about \$2.5bn-\$3.5bn are expected compared with total estimated liabilities for the Kwelm companies of about \$9.5bn. But its experience offers lessons for Equitas. Ian Sleave, KMS managing director, says a big problem is persuading some reinsurers to pay up. Because the Kwelm companies are insolvent, reinsurers regard the book as inberently unprofitable – and there is no chance of further business from their former clients. "Less financially stable reinsurers will be looking for reasons to avoid paying their liabilities," Mr Sleave says.

This could become a difficulty for Equitas once the distinction between it and the still-trading Lloyd's market becomes clearer. "If Lloyd's and Equitas are trying to put themselves forward as distinct organisations, then Equitas may find some similar problems because they cannot use the leverage of on-going business," Mr Sleave adds. And wheo reinsurance coverage is being disputed, the cash flow dries up. The answer is to have high quality staff, well briefed abont reinsurers' liabilities. This is not always easy because often insurers have been thinly staffed and have relied on the insurance brokers which eupply them with business to keep records. "You have got to be tenacious. You do have setbacks."

KMS is prepared for a long slog. Like Equitas, it is likely to be 15 or 20 years before its work is complete and tbe last claims on insurance policies they are servicing are finalised. Of course, the volume of work will diminish gradually. But both Equitas and KMS will be alive to the opportunities for offering their services to those left looking after future insurance companies in distress – and building on their experience as professional reinsurance bunters.

■ **Continental Europe:** by Herbert Fromme

American heavyweights enter the market

Two US reinsurers have made significant acquisitions in Germany

While German insurers are struggling to cope with one consequence of the 1994 liberalisation, a ferocious price war in motor insurance, at the same time they are having to adjust to enormous changes taking place in the reinsurance industry. The German – or better, the continental European – reinsurance market is changing with a speed and power most insurers dared not dream of three years ago.

The most noticeable sign of this change was the arrival of two US heavyweights. In November 1994, the largest US reinsurer, General Re, took control of the second largest German reinsurer Cologne Re. The seller was insurer Colonia, part of the UAP group of France.

In the bidding for Cologne Re, General Re managed to beat its fellow US reinsurer Employers Reinsurance Corporation (ERC).

But ERC did not take long to strike back. In May 1995, it bought Munich-based Frankona Re from the Gerling insurance group, and the business and the name of Aachen Re, but not the company itself, from Aachen Munich.

The coming of the Americans was clearly the main event, but there were other moves, too. French insurer Scor integrated Deutsche Konti Re into its group and renamed it Scor Germany, and the Hannover Re/Eisen+Stahl Re concern was reorganised.

Not everyone believes this has changed the German market to any great extent. Hans-Jürgen Schinzler, chief executive of Germany's and the world's largest reinsurer, Munich Re, said: "There are no indications so far of e change in Germany influenced by General Re and Employers Re purchasing German reinsurers. In our opinion, these acquisitions will be noticeable much more in the international presence of the two US companies, rather than specifically in Germany."

Mr Schinzler denies that Munich Re's acquisition of US reinsurer American Re in August this year was an answer to the US reinsurer's move into Munich Re's home ground. "Not at all. Our aim was to improve our position in the US reinsurance market and to broaden the geographical spread of our reinsurance portfolio. We want to combine our know-how in innovative markets such as financial reinsurance and alternative markets with that of a specialist in that area."

Not everybody was happy about the arrival of the American reinsurers in Germany. Peter Lütke-Bornefeld, chief executive of Cologne Re, is experiencing three reactions from customers since the company was taken over by General Re. "Some people said, it is good to have another very large and professional reinsurer operating here, with its capacity and know-how. The second reaction: 'We see the concept, but you have to convince us. Wa will watcb how this develops.' We also had e third reaction, with people nursing their prejudices against American companies without checking their facts on this reinsurer. Naturally some of our competitors have stressed that latter angle."

The reservations of some German insurers are based on the fear that Americans tend to think in the short term, going in when the market is high – as it was in 1993 and 1994 – and perhaps getting out again when it becomes weaker, as is the case now.

There is also a considerable difference in management culture. Mr Lütke-Bornefeld can understand the worries. "People are, of course, right to ask questions. Can we still rely on our reinsurer in five years' time? This is the sort of question primary companies have to ask themselves." But he points out that General Re is there to stay, and that for primary insurers, the security and the size of a reinsurer is becoming far more important.

Bernhard Fink, chief executive of Frankona Re, believes there is little, if any, resentment in the market to the American ownership of his company.

"On the contrary," he said, "insurers want first-class security, new ideas and alternatives that could not be provided before. And they are getting all that now." Under the new arrangement, ERC Frankona – the name under which the group is now trading in Europe – could muster much more capacity and provide reinsurance on a scale not possible before.

Enormous changes are taking place in the industry

Wilhelm Zeller, who moved from Cologne Re to become chief executive of Hannover Re on January 1, has a different view. "After the recent moves of American reinsurers into the German market, alternatives are needed," he said. "Some cedants tell me that they woke up one morning and found 50 per cent or more of their reinsurance with American companies." As a result, they intended to reduce their exposure to American companies by placing their business with non-American companies, such as Munich Re, the Swiss Re affiliate, Bavarian Re, and Hannover Re, Mr Zeller said.

He believes that the German market has changed fundamentally. A German reinsurance buyer used to be able to choose from at least three segments, he said. "These were the large German reinsurers dominating the market, a number of small and medium-sized domestic and international companies, and the reciprocal exchange of business among primary insurers. The latter category is dead for all practical purposes," Mr Zeller said. "The small and medium-sized reinsurers are also on their way out. And half of the first segment of the major companies has become American. That is why the market feels it needs a German alternative."

For Bernd Michaels, head of leading regional insurer Provinzial Düsseldorf and president of the German insurance federation GDV, it is very important that a reinsurer offers his cedant "real and genuine capacity", not just assembling capacity via retro markets. "The financial strength of each individual reinsurer will become more important. Primary insurers also want intelligent and individual solutions, including new products such as financial reinsurance," he said.

Risk and portfolio analysis, and help with product design and tariff calculations are also needed – especially in the newly deregulated German market, where the insurers' associations used to carry out this task. "Only those reinsurers who can act absolutely independently of other group interests will find acceptance and trust in the German primary insurance market," said Mr Michaels.

Whatever their position on this issue, all German insurers benefit from the fall in reinsurance prices. The new, enlarged reinsurance groups can only enjoy the benefits of their size if they write volume. This is one of the reasons for the present competitive struggle. That trend is only partly offset by a growing awareness on the part of European reinsurers that they have to provide shareholder value, too.

For primary insurers, the present low price level is a double-edged sword. It is true that they pay less for protection. But the high availability of reinsurance capacity is leading to fast-falling prices in industrial insurance lines, where most primary insurers pass on more than two-thirds of their business to reinsurers.

And, in the long run, primary companies need financially strong reinsurers, able to perform much needed services. If they have the staying power, the newly-created groups stand a good chance in the market.

■ **US:** by Richard Waters

Reserves bolstered

The jump in surpluses means the industry has rid itself of some problems

The reinsurance industry has seen it all before. Underwriting losses eat into the industry's capital and force a rise in premiums. More capital is drawn back to the market, margins fall and underwriting losses follow.

If that cycle were to repeat itself in the US, the next couple of years would turn out to be highly unprofitable ones for the country's reinsurers.

During 1995, the 80 companies that participate in the Reinsurance Association of America's surveys of the industry recorded a massive 34 per cent increase in their policy-holders' surplus, lifting the combined total by $10bn to $39.7bn. Most of that change was due to additions to unrealised investment gains.

The largest single factor in the rise was the $4.5bn increase reported by National Indemnity, the reinsurer owned by Warren Buffett, the Omaha billionaire. But even without National Indemnity, last year's rise in the industry's surplus was well in excess of the average annual gain of 10 per cent or so seen so far in the 1990s.

In some corners of the reinsurance market, there has been a close link between higher capacity and lower premiums. The jump in catastrophe reinsurance premiums in the early 1990s, for instance, was followed by declines of 15 per cent last year and 10 per cent for 1996, says Craig Elkind, an associate director at Standard & Poor's.

Perhaps fortunately for the reinsurers, however, few seem to think that the link between higher surpluses and lower premiums exists in so mechanical a form for the industry as a whole anymore. Much depends on the competitive dynamics in each particular market, says Mr Elkind. "Capital is so mobile, the cycles are condensed," he adds. "We don't think there is an overall cycle anymore."

Meanwhile, the jump in surpluses in the US has presented an opportunity for the industry to consign some of its old problems to history. Swiss Re America, the US arm of the giant Swiss company, and American Re each made substantial additions to their reserves against environmental losses during 1995, continuing a trend which has now seen most of the US's biggest primary insurers and reinsurers bolster their reserves with one-off actions.

The effect of that was to leave the US reinsurers with an overall combined ratio of 109.5 per cent for the year – slightly above their average for the 1990s, and the second-worst result of the decade, after the 118 per cent combined ratio suffered in the hurricane-battered 1992.

At their current levels, though, the reinsurers' underwriting results are still ahead of those of primary insurers. That reflects a shift that has been under way in the US reinsurance market, as underwriters move from accepting proportional risks (meeting a share of an insurer's total losses) to excess-of-loss risks (under which they make payments only when losses have exceeded a certain level). In years when there are few disastrous losses – as has happened in the mid-1990s – reinsurers do better, though they remain more exposed to the big catastrophe.

The recent jump in capital surpluses has also contributed to another notable trend in the industry: the wave of mergers, which has been as apparent in the US as elsewhere in the world. Consolidation remains one way to reduce the capital employed in the business, and to make that which remains work more efficiently.

Together with the drive among the biggest reinsurers to build stronger trans-Atlantic links, that has helped lead to two big acquisitions in recent months: General Re's $940m purchase of National Re, and Munich Re's $3.3bn acquisition of American Re.

National Re and American Re were two of the handful of companies in the US that underwrite directly, rather than accepting risks through brokers. That leaves few obvious acquisition candidates for those reinsurers that manage their relationships with their customers directly – though the distinction between the direct and broker routes are not as clear cut as may seem to be the case, says Mr Elkind at S&P. Some of the companies that accept most of their business through brokers maintain increasingly close relationships with their customers, he says.

Warren Buffett: National Indemnity's surplus rose by $4.5bn

Also, some reinsurers accept business through different routes. They include Everest Re, formerly Prudential Re, which had premiums of $670m last year and undertakes around 40 per cent of its business direct. Also, NAC Re, with $480m of premiums, writes facultative reinsurance direct, but accepts other forms of reinsurance through brokers.

While the US reinsurance industry has amassed plenty of capital of its own, meanwhile, other routes may soon open up for new entrants to underwrite a share of the market's risks – with incalculable long-term effects on premium rates. Earlier this summer, USAA, the country's biggest direct writer of auto and homeowners' insurance, sought to sell $500m of bonds backing reinsurance risks, in what would have been the first public issue of such securities.

The overlap of the capital markets and the insurance industry in this way has long been predicted. So far, though, there have been few attempts to sell insurance risk to traditional bond market investors (one of the only ones to date involved a private sale of securities in London by another US company, American International Group).

USAA's attempt, backed by Merrill Lynch, involved seeking $500m excess-of-loss cover for windstorm damage on the US's east coast. Under the structure, a catastrophic loss could have left holders of the securities facing a loss of their principal, as well as interest.

In the event, USAA's plan was not in place by the time the annual hurricane season had moved into full swing. The company suffered both from having too little time to sell its novel securities, as well as pricing, said one person who has followed its plans. Few expect this to mark the last attempt to develop the capital markets as an alternative to the traditional reinsurance business, however.

■ **France:** by Andrew Jack

A model system

Since 1982, cover is available in France on most natural catastrophes

In a country with as diverse a climate and landscape as France, it is little surprise that natural disasters are far from uncommon. In a culture which has long been proud of a tradition of solidarity, it should be no shock either that there is a system designed to help cope with the costs of such tragedies.

The French system of natural catastrophe insurance is seen as a model in many parts of the world and combines a number of unique characteristics. Domestically, it is nevertheless a system which is under constant review and subject to a number of demands for reform.

Following a series of natural disasters triggering official inquiries during the 1970s, severe flooding in the Saône and Rhône valleys and in the south-west of France in 1981 finally pushed the government into passing radical legislation in 1982.

Until the law of July 13 that year, only some natural catastrophes including storms, hail and heavy snow were insured. Many others were excluded, on the grounds that their incidence was too common, and the costs were too high since only those in high-risk areas would have bought policies.

Since that time, everyone with insurance on possessions has been covered automatically by the system. Everyone pays premiums at the same tariffs: 9 per cent of premiums on fire, explosion, theft, housing or corporate contracts; and 0.5 per cent of car damage contracts.

Cover is available on most natural catastrophes – defined as natural phenomena at an abnormal intensity – including flooding, land- and mud-slides, earthquakes, drought, avalanches, and tidal waves. However, since a modification to the regime in August 1990, storms have been excluded from the definition.

All that is required is a statement from the authorities that an incident is classified as a catastrophe, by a decree published in the French Official Journal.

After this notification, claimants have up to 10 days – or one month if asking for compensation for operating losses – to file claims, and the insurer up to three months to pay out beyond a minimum threshold defined in the law of FFr1,500 ($295) for a house, car or other goods for private use; 10 per cent of the damage to industrial or commercial or agricultural property; and up to three days of activity in operating losses.

Given the potentially high costs of such disasters, the 1982 law also gave insurers the possibility of reinsuring their risk, notably through the Caisse Centrale de Réassurance, which offers unlimited cover, underwritten by the state – including cover for war risks. Insurers can also create tax-exempt provisions in anticipation of natural catastrophe claims.

To help with the administration of claims, French insurers have also created co-ordination centres in each region, to liaise between the companies, the public authorities and the media, following any catastrophe.

The French system is one of the few in the world to offer such wide-ranging cover for natural disasters without limits and through a single tariff across the country. Elsewhere in Europe, several countries such as Denmark and Spain have a system involving the state, while others including the UK and Germany offer partial cover through insurers.

Even so, France has a strong advantage: it is not as badly exposed as some other countries to disasters. Total payments have been less than FFr24bn ($4.7bn) till the end of 1994, compared with $7.5bn for the 1994 Los Angeles earthquake alone or $1bn for flooding in the US Mid-West in summer 1993.

The FFSA, the association of commercial and some mutual insurers, estimates that even the figures on potential extreme disasters are not so great: FFr50bn if the river Seine burst its banks in Paris, or FFr100bn if there was an earthquake in Nice.

Between the years 1982 and 1994, there have been total premiums paid of FFr43.8bn, offset by claims paid of FFr23.6bn, commissions and charges of FFr10.9bn, net reassurance costs of FFr5bn and residual provisions and profits of FFr4.8bn.

In the same 12-year period, 62 per cent of payments made through the French scheme was in response to flooding. The most important – totalling FFr3.7bn during September 1993 and January and February 1994 – were for floods in the north, east and south of France, followed by a further FFr3bn in February 1995 in the north, east and west of the country.

A further 30 per cent of settlements were the result of drought or other disasters – including FFr4.4bn between 1989 and 1991 affecting buildings in 65 departments of France. The remaining 8 per cent were the result of storms, which are no longer included in the scheme.

The system certainly has its faults. Perhaps most significantly, there are no differences in the premiums paid – a change which might make those who wilfully live, work or move into high-risk areas more responsible.

The French insurers prefer to leave the sacred principle of "solidarity" of the system intact, and instead lay emphasis on another important weakness. As Gema, the association of mutual insurers, stressed recently, it has done little to boost prevention measures against catastrophes.

The 1982 law established the principle of so-called "PERs" or state-backed prevention plans in regions at risk of disasters. Some 15,000 of France's 36,000 communes have been classified as facing risks, and 2,000 classified as in priority zones. Yet just 500 had PERs in place in 1994.

Some steps have already been taken to improve the situation. The "Barnier law" of 1995 aims to introduce new integrated safety and prevention plans in the 2,000 communes most at risk by 2000.

Gema also attacks one aspect of the existing tariffs, arguing that households pay disproportionately more than companies in relation to claims incurred, and that this should be reflected in different levels of premiums.

Meanwhile, the FFSA wants the system extended to pay for personal injuries, as well as to an additional form of natural disaster, the tropical cyclone, which is a problem in many French overseas departments and dependent territories.

Severe flooding in 1981 prompted radical legislation

■ **Developing markets:** by Trevor Petch

Liberalisation gathers pace

Eastern European and Asian countries are creating "national champions"

Since the end of the 1980s, liberalisation of international insurance and reinsurance markets has gathered pace.

In July last year, the World Trade Organisation interim agreement on financial services was signed. In 1994, the European Economic Area was formally established.

In Latin America, the end of the military dictatorships of the "Lost Decade" of the 1980s has led to abolition of national reinsurance monopolies in all but one or two marginal markets.

Even in Brazil, where ending the monopoly of Instituto de Resseguros do Brasil (IRB) requires an amendment to the Constitution, the senate approved the necessary preliminary legislation in July.

In Asia, the drive for membership of organisations such as the OECD has prompted liberalisation of traditionally restricted reinsurance markets.

In the Arab world, Oman abolished its compulsory 30 per cent local reinsurance placement in 1995, and Egypt permitted the operation of foreign reinsurance subsidiaries from January 1 this year. There is also a counter-current to the general trend of liberalisation.

China has opened its market to competition and split up the monolithic People's Insurance Co of China (PICC). But the new insurance law which came into force last October requires 20 per cent of all reinsurance to be placed in China at the direction of the authorities (to PICC Reinsurance), priority for domestic insurers in the remainder, and allows the authorities to prevent any insurer from engaging in reinsurance transactions abroad.

In Vietnam, another newly-opened market full of potential, real competition is also developing, but the Vietnam National Reinsurance Co (VinaRe), founded in 1995, takes a compulsory 20 per cent cession of all reinsurance placements.

The decision to establish national state-owned reinsurance companies is not surprising in these two countries, where the communist governments are deeply committed to developing the market under firmly-controlled political conditions.

More depressing for western investors is India, where close to three years after the government-appointed Malhotra Commission recommended ending the monopoly of the General Insurance Corporation of India, there has been little progress.

The leading proponents of new national reinsurance companies are to be found in eastern Europe, and especially the former Soviet Union (FSU). With dozens of undercapitalised new insurers – in the case of Russia, thousands – reinsurance is required simply for consumer protection.

In Bulgaria, a Bulgarian reinsurance company has been established by the state-owned Bulstrad and its client insurers to assume local reinsurance which Bulstrad already provides.

In Poland, the government is a minority shareholder in Polish Re, along with insurers and Polish institutional investors.

In Romania, where there is much concern over the extent of "fronting" the entirety of a risk for a foreign insurer, there has also been discussion of a national reinsurer.

The Czech Republic and Hungary so far appear to be immune from such developments, which in any event are likely to have only a marginal effect upon reinsurance markets – in the absence of legal protectionism – since the capital involved is small, and capacity therefore limited.

At the same time, prospective membership of the OECD led Poland to abolish its compulsory 20 per cent local reinsurance placement in March, having increased the figure from 10 per cent only in January. All the countries of the former Yugoslav Federal Republic have maintained their traditional use of a local reinsurer with a legal right to handle all transactions with foreign markets.

In Croatia, a backward step in market development was this summer's acquisition by Croatia Insurance Co – effectively government-owned – of reinsurance company Slavija Lloyd, upon which its domestic competitors are dependant. In Russia, there has been a powerful lobby within the government for a national reinsurer with similar legally-established advantages for over three years. Whenever the local insurance industry thinks it has killed off the proposal, it reappears.

In Kazakhstan, where proposals for re-creation of an even more wide-ranging monopoly were buried by this year's new insurance decree, the idea was immediately floated of restricting instead the terms on which oil companies could insure. In Belarus, special permission is required to reinsure abroad, and only strategic industries have the right to buy foreign exchange. Measures proposed by the finance ministry to enable the insurance industry to gain access to such funds were vetoed.

At the same time, countries such as Moldova and Turkmenistan which formerly placed no restriction on foreign investment in insurance have followed the Russian model and limited participation to 49 per cent.

Insurance nationalism has a number of causes. One is simply fear that huge western insurers will swallow the market. Another is national pride, the sentiment which saw many former colonies establish national reinsurers in the 1960s and 1970s as a fetish of economic independence. Unfortunately, new local insurers are thereby deprived of the opportunity of developing experience on international reinsurance for themselves. They are forced to accommodate themselves to the often unsophisticated terms on which the national reinsurer is prepared to offer cover.

Rio de Janeiro: Brazil is about to abolish its reinsurance monopoly

Perhaps worst, the guaranteed commission from the national reinsurer provides a disincentive to real competition, protecting inefficient insurers not from foreigners, but from better companies in the local market. The most frequent economic argument for national reinsurance companies – often deployed by legislators with the sketchiest knowledge of economics – is that they stop the outflow of foreign currency as reinsurance premium.

Receipts of claims payments and reinsurance commissions are often ignored, and in most cases there is no statistical data to permit calculation of what the net reinsurance balance actually is. And if there were, the last five years have been relatively free of catastrophic losses.

Had the engine plant of the KamAZ motor plant in Tatarstan which burned down in 1994 been insured, the US$380m or so which Russia would have received from reinsurers would have altered the reinsurance arithmetic substantially.

The whole KamAZ enterprise has since been insured for US$4.5bn. Another danger of the simple association of reinsurance and loss of foreign exchange is the temptation to accept reinsurance from abroad on the basis that premiums are earnings.

This was not an uncommon approach in Soviet times. In 1994, the former state reinsurers of eastern Europe accrued premium totalling US$131,000 from US insurers, and owed US insurers US$26m. The result may therefore be the worst of both worlds.

As the Korea Non-life Insurance Association commented in its report on 1994, "good business was reinsured overseas while bad business from overseas was reinsured domestically".

Trevor Petch is editor of the Financial Times newsletter East European Insurance Report.

FINANCIAL TIMES
COMPANIES & MARKETS

Monday September 9 1996

Andersen puts off strategy meeting

By Jim Kelly, Accountancy Correspondent

Andersen Worldwide, the world's largest professional services firm, will announce today that it is to postpone a special partners' meeting called to consider the organisation's future.

At the same time it will publish global revenue figures showing 16 per cent growth to $9.4bn in the year to August 1996, which should keep it at the top of the "Big Six" league of accounting and consultancy firms. The results are the first global figures for the sector this year.

Mr Larry Weinbach, chief executive, said the organisation, which includes Arthur Andersen and Andersen Consulting, was on course to reach revenue of $16bn a year by 2000. "This indicates we are on the trail to doubling revenue in the next five years."

As part of its growth strategy Andersen had set in motion a project – codenamed Andersen 21 – to look at its future structure. The aim was to try to maintain rapid growth. Andersen believes "spinning off" its consultancy arm has been behind its success.

Mr Weinbach said the timetable for coming forward with recommendations in September was too ambitious. "I'm going to postpone that September meeting. I want to make sure that we have everything in place. It's more important to be right than keep to an arbitrary date."

Of the postponement, he said: "I don't think we are talking years – but not calendar 1996."

There has been speculation that Andersen was considering a complete divorce between the two firms under the Andersen Worldwide umbrella, but Mr Weinbach has denied this. Andersen has admitted there are competitive tensions between the two and profit sharing disputes.

Rather than a complete split, it is more likely Mr Weinbach will try to replicate the success of the split between Arthur Andersen and Andersen Consulting – which has been copied to some extent by other Big Six firms. Further "spin-offs" are therefore thought likely.

One scenario would see up to five firms, covering tax, audit, information technology consulting, strategic consulting and outsourcing. This would allow the merger of competing parts of both existing firms. The complexity of this possible move might lie behind the postponement of the meeting.

A five-way split of the Andersen organisation – which has nearly 100,000 staff and operates in more than 50 countries – would cause upheaval and could encounter severe resistance.

Fox replaces TV entertainment head

By Christopher Parkes in Los Angeles

Fox, News Corporation's US television network, has a new head of entertainment after a further shake-out at the weekend.

Mr Peter Roth, the network's top programme production executive, was named to replace Mr John Matoian, who resigned after only two years.

Mr Roth, 45, and the fifth president at Fox's entertainment group in seven years, takes on the task of driving the network up the rankings to challenge the established "big three" - NBC, ABC and CBS.

Fox has grown quickly under pressure from Mr Rupert Murdoch, News Corp chairman, and finished the 1994/95 TV season in fourth place after apparently winning market share from ABC and CBS.

It is especially popular in the mass market, performs well in the 18-49 age group, and its programmes for women and children are often highly rated. However, analysts say it needs broader appeal if it is to join the elite of US television.

One indication of Mr Murdoch's strategy came in July when Mr David Hill was elevated to president of Fox Broadcasting from his previous job as head of sports.

Mr Roth, responsible for successes such as *The X-Files* and *The Simpsons*, will report directly to Mr Hill, whereas Mr Matoian reported one level higher, to Mr Chase Carey, chairman of Fox Television.

Mr Hill's promotion followed his successful, if expensive intervention in the bidding for rights to broadcast major league football. On top of this $1.6bn commitment, Fox has spent an estimated $500m on persuading 10 television stations to switch their allegiance from CBS to Fox.

This summer News Corp took control of New World Entertainment in a $2.4bn deal which gave Fox control of 10 big city broadcast stations.

Mr Matoian's resignation was preceded as usual by persistent rumours. However, it is believed he chose to go because he was uncertain of his place in the changing chain of command.

Increased direct intervention by Mr Hill in the entertainment arm and changes made during an absence due to illness in his family are also believed to have undermined Mr Matoian's morale.

Raymond Snoddy and Andrew Jack on the link-up between NetHold and Canal Plus

Empire builders look to spread the pain

The rationale for the merger of NetHold and Canal Plus, announced last week, was simple. So argues Mr Johann Rupert, chief executive of Richemont, the luxury goods and tobacco group and chairman of NetHold, the pay-television group.

The pain of developing digital satellite television alone in a large number of emerging markets was simply too great, he says. A partner with additional clout and cash flow was required.

"I would rather have less of a good franchise than more of a weak franchise," says Mr Rupert, who finally chose between rival suitors DirecTV of the US and Canal Plus of France on the grounds that he preferred to build a European empire rather than a more diffuse international one.

"Unless you get into the league of a Rupert Murdoch [chairman of News Corporation] and have an installed decoder base nearer to 10m than 1m you do not get economies of scale," he says.

His room for manoeuvre was limited by the fact that his South African partner in NetHold, Multichoice International Holdings, feared it might not be able to remit foreign exchange from South Africa at the time when cash calls would come. But mostly it was the scale of investment required to launch potentially hundreds of TV channels that NetHold found daunting.

"To do this deal properly you have got to go to the billions. Five hundred million [pounds] would not be enough," Mr Rupert believes. As a result, NetHold has been subsumed into Canal Plus, with Richemont owning 15 per cent and MIH 5 per cent. MIH retains NetHold's operations outside continental Europe.

For Canal Plus, the decision to acquire NetHold offered the group increased mass, a larger subscriber base and better access to markets in Europe, particularly to central and eastern Europe. It will also gain a strong presence in Italy through NetHold's stake in Telepiù and end rivalries between the two companies where they formerly competed, for example Poland.

But whatever the strategic grounds for the deal, Ms Rebecca Winnington-Ingram, media analyst at Morgan Stanley in London, estimated yesterday that the underlying operating loss from NetHold's side of the deal would be about FFr800m ($157.8m) this year, of which FFr275m would flow from its 45 per cent stake in Telepiù. As a result, she was reducing her estimate of 1997 profits for Canal Plus from FFr805m to FFr270m, and the 1998 figure from FFr981m to FFr460m.

A number of French analysts believe the deal was designed, at least in part, to prevent the Americans of DirecTV, a subsidiary of Hughes Electronics, gaining a foothold at the centre of European pay-TV. It was therefore no surprise that one of the first to welcome the move was Mr Philippe Douste-Blazy, French minister of culture and a leading defender of the importance of a strong European TV industry in the face of US competition.

Moreover, Canal Plus looked increasingly left out of the rapid rationalisation of European pay-TV.

The recent merger between CLT of Luxembourg and the TV interests of Bertelsmann, the German-owned international media group, along with the collapse of a planned alliance between Canal Plus, Bertelsmann and British Sky Broadcasting, all increased the pressure. When BSkyB in turn linked up with Munich-based Kirch it looked as if Canal Plus had missed out.

Canal Plus also faced increasing pressure in its domestic market with the prospect of the new TPS satellite service backed by its rivals TF1 and the state-owned France Télévision. The service is to scheduled to start at Christmas in competition with Canal Plus's CanalSatellite digital service, launched in April.

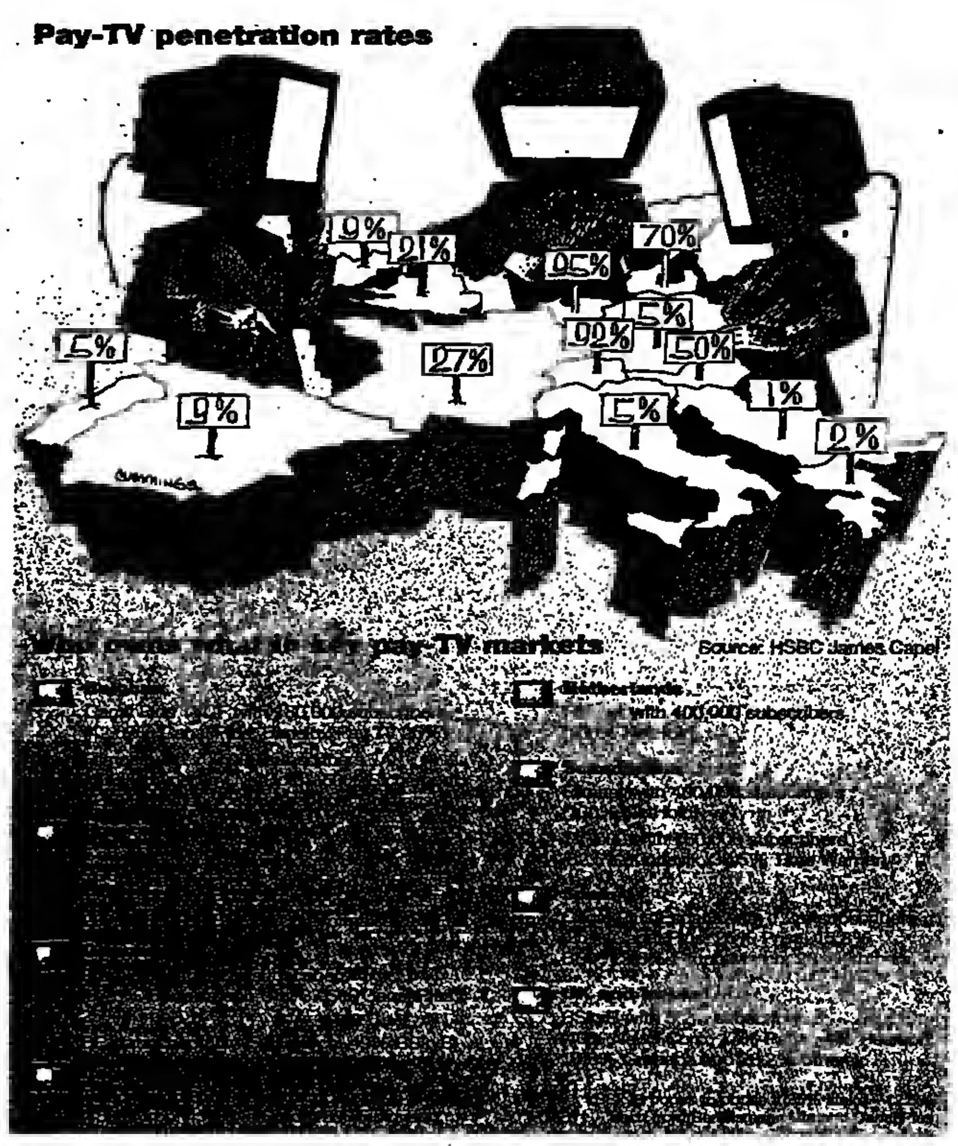
The deal between NetHold and Canal Plus means that the digital TV map of Europe has now effectively been drawn up – at least in the main markets. BSkyB dominates the UK and Kirch looks like being the strongest service provider in Germany.

As for Canal Plus, in spite of the prospect of competition, the company looks set to become the dominant digital provider in France. Italy, where there is hardly any cable TV, has now been effectively become neutral – both Canal Plus and Kirch have stakes in Telepiù.

However, battle is likely to break out in Spain with DirecTV determined to establish a European foothold with Spanish partners. The deals have been done, the partnerships struck – although given the scale of some of the egos involved their permanence should never be taken for granted.

But questions remain, notably whether people actually want hundreds of channels. Mr Rupert is convinced they do and points to the viewing habits of his own family as proof of this.

Mr Rupert, who will become a director of Canal Plus, believes it is such choice, together with "must-watch" live exclusive sport, that will create the new business and make all the risk and corporate manoeuvrings worthwhile.



INSIDE

Creditanstalt

The Austrian government is under pressure to rethink its approach to the privatisation of Creditanstalt following a last-minute bid from a consortium of Austrian and international investors for its majority stake in Austria's second-biggest bank. Page 21

Trygg-Hansa

Trygg-Hansa, Sweden's second-largest insurance group, has made its first foray into the Nordic market after a period of heavy restructuring, acquiring Tell Forsikring of Denmark from Winterthur, the Swiss insurer. Page 21

Eurotunnel

Sir Alastair Morton is expected to announce today that Eurotunnel, the Anglo-French Channel tunnel operator, has made first-half losses of up to £350m ($546m) in what will probably be his last results statement as the group's co-chairman. Eurotunnel has given itself until the end of this month to produce an outline refinancing deal with its 225 banks over its £8bn debts. Page 20

Principal Hotels

Principal Hotels, the UK group, has joined the queue of hotel companies seeking a stock market listing. It hopes to raise £50m ($78m) by way of a placing in October. Page 20

Emerging Markets

The government of Mexico is said to be seriously considering dedicating a monument to Mr Saddam Hussein, president of Iraq. Whenever things go wrong for Mexico Mr Hussein comes to the rescue by doing something dramatic, triggering a rise in oil prices and showering Mexico, the world's third-largest producer, with windfall profits. Page 24

Friedland attacks share freeze

By Bernard Simon in Toronto

Mr Robert Friedland, the international mining entrepreneur, has accused US authorities of severely damaging his business interests by impounding shares valued at US$152m to defray an environmental clean-up at a Colorado gold mine.

The accusation is contained in an affidavit filed by Mr Friedland in response to recent court orders in the US and Canada which froze a third of the shares he received from the C$4.3bn (US$3.13bn) takeover of one of his companies, Diamond Fields Resources, by Inco, the nickel producer.

The orders are believed to be the first time US authorities have seized assets abroad to cover an environmental clean-up. An Ontario court renewed the freeze last Friday pending Mr Friedland's appeal.

The impounded Inco shares represent the estimated cost of efforts by the US Environmental Protection Agency to prevent toxic waste from the Summitville gold mine reaching rivers.

Mr Friedland was founder, and, for a time, chief executive and controlling shareholder of Galactic Resources, a Vancouver-based company that developed Summitville. Galactic declared bankruptcy in late 1992.

The EPA secretly won the court orders last month after alleging that Mr Friedland might put his assets beyond the reach of US authorities.

According to Mr Friedland's affidavit, he needs the frozen Inco stock for security to finance business opportunities. He said some of the Diamond Fields shares tendered to the Inco offer were pledged to Bank of Montreal to support lines of credit.

Mr Friedland, who spends much of his time in Australia and Singapore, said he offered a "substantial financial contribution" earlier this year towards the cost of the clean-up without acknowledging liability.

STATISTICS

COMPANIES IN THIS ISSUE

Sime Darby rise prompts query over bank earnings

By James Kynge in Kuala Lumpur

Sime Darby, Malaysia's largest conglomerate, reported a better than expected increase in full-year group net profits mainly because of a strong contribution from a recently acquired local bank and buoyant vehicle demand.

Group net profits for the year to June 30 rose 20 per cent from M$569.2m to M$682.5m (US$273.7m). Profits before tax climbed 31 per cent from M$1.01bn to M$1.33bn.

But some analysts questioned the sudden improvement in the results of the financial services division which included a contribution from the purchase of a majority stake in United Malaysian Banking Corp (UMBC), the country's fourth largest bank by asset value.

The group consolidated the bank's earnings from November 11, which it regards as the effective date of the acquisition. But the company it bought the holding from, Datuk Keramat Holdings, has also consolidated the bank's earnings in its year to January 30 – meaning some earnings have been claimed by both groups. Datuk Keramat says it handed over its stake in April, after all the conditions of sale were met.

The financial services arm reported a rise in profit before interest and taxation from M$22.6m to M$329.5m. About 20 per cent of this came from UMBC.

The group did not say exactly how much of the bank's earnings had been consolidated. Analysts said if UMBC's earnings were consolidated from April, group pre-tax profits would have risen about 25 per cent, rather than the 31 per cent reported.

The company declined to comment on the accounting question and analysts were divided on whether Sime Darby was justified in consolidating the bank's earnings from November. Investors would have to wait for a ruling by the Malaysian Institute of Accountants, the professional body.

Revenue rose from M$9.39bn to M$10.78bn and earnings per share climbed from 27.4 Malaysian cents to 30.4 cents. The group offered an unchanged annual gross dividend of 21 cents.

The heavy equipment and motor vehicle distribution division reported a jump in pre-tax profits from M$80.8m to M$146.6m because of buoyant demand from Malaysia's robust construction sector and strong car sales.

Sime Darby said its shares would be delisted from the London Stock Exchange from the close of business on November 15. The company, which declined to comment on the results, did not give a reason for the delisting.

Eurotunnel's losses at £350m

By Geoff Dyer

Sir Alastair Morton is expected to announce today that Eurotunnel has made first-half losses of up to £350m ($546m) in what will probably be his last results statement as the group's co-chairman.

The figures, which have been brought forward by one month, will underline the precarious financial position of the Channel tunnel operator, despite its increasing share of the cross-channel passenger market.

The Anglo-French group, which has given itself until the end of this month to produce an outline refinancing deal with its banks, is unlikely to report significant progress in the talks today.

Negotiators say there is broad agreement on the structure of a settlement, however there are key issues to be resolved.

The deal is thought likely to include an initial debt-for-equity swap which would leave the banks owning less than half of the equity.

Another section of the debt is expected be refinanced through the issue of convertible bonds, which the company can redeem if it meets certain revenue targets, but which leaves open the prospect of the banks owning a majority stake at a future stage.

Any refinancing agreement would have to be approved by all of the 225 banks and by the group's shareholders. Eurotunnel has been in refinancing talks with its 225 banks since September when it suspended interest payments on more than £8bn of debt. The French court, which has appointed two mediators to assist with the negotiations, has extended their mandates until the end of September.

Analysts are forecasting pre-tax losses of £300m-350m for the first six months of the year, including notional interest payments on its debts.

The group has disclosed first-half revenue figures which more than doubled to £223.7m. Passenger numbers have continued to rise over the summer, with the group now claiming a market share on the Dover-Calais route of 44 per cent.

Sir Alastair is to stand down as co-chairman once a refinancing plan has been agreed with the banks. He will be succeeded by Mr Robert Malpas, chairman of Cookson: Mr Patrick Ponsolle, the French co-chairman, will become executive chairman.

Wickes profits were overstated by £50m

By Ross Tieman

Profits at Wickes, the DIY retailer, have been overstated by some £50m ($78m) during the past three years, about £30m more than previously thought.

Discussions with the company's suppliers, allied to a joint investigation by Price Waterhouse and Linklaters & Paines, are gradually revealing the extent of accounting inaccuracies.

However, sales in the company's 162 stores are running ahead of last year, and directors are confident it will survive, albeit in a slimmed-down form.

Advisers are understood to believe that a rights issue to raise about £30m, perhaps allied to disposal of overseas operations, could put the company back on a sound financial footing. That would enable trading to resume in the company's shares which were suspended on June 25 at 69p.

It is now clear that profits were seriously overstated in 1994 and 1995, and that smaller mis-statements were made in 1993 and 1992. The problems arise from the treatment of rebates provided by suppliers.

But no steps can be taken to secure the future of the company until the full extent of the profits shortfall has been established.

Talks are underway with 40 of Wickes's 160 suppliers. These are expected to be concluded by the end of the month, when the findings of the Price Waterhouse/Linklaters inquiry are expected. That report will form the basis of an announcement to shareholders, and pave the way for the company to open talks with its bankers about a refinancing package.

Efforts to recruit new directors to the board are already well advanced. Mr Bill Hoskins, formerly of Laporte, has been appointed as finance director.

Heidrick & Struggles, the headhunter, has been retained to find a chief executive to replace Mr Henry Sweetbaum, who resigned on June 26.

The company is also seeking non-executive directors with retail experience. Two could be appointed within weeks. Meanwhile Mr Michael von Brentano, Wickes' chairman, and Mr Hoskins have begun to attack costs.

Flotation may value Principal Hotels at £100m

By Scheherazade Daneshkhu

Principal Hotels, the Harrogate-based group, has joined the queue of hotel companies seeking a listing. It hopes to raise £50m in a float expected to value it at £100m ($156m) via a placing in October.

Mr John Lewis, executive chairman, is also chairman of Cliveden, the luxury hotel run in the stately home, which came to the market this year in a £7m flotation. Other hotel new issues this year include Macdonald Hotels, Millennium & Copthorne and Jarvis Hotels. Thistle, the UK's second largest hotel company, is to publish its prospectus on Wednesday, in a flotation expected to value the company at £900m-£1.2bn.

Principal, which has 21 hotels in the three and four star market, made operating profits of £8.1m in the year to October on turnover of £42.6m. HSBC James Capel, the company's brokers, forecast operating profits of £11.5m on sales of £50.5m.

Mr Lewis led a management buy-in of the group in 1994, two years after the company went into receivership. He said Principal needed capital to expand and funds raised would also reduce debt. Principal has borrowings of £35m.

John Lewis: also chairman of Cliveden

He believed the group differed from other hotel companies because of the type of properties it owned. "Most people are tired of going to bedroom factories; we have developed a unique portfolio of classic period hotels."

Average occupancy was 67 per cent last year and the average achieved room rate was £38. James Capel is forecasting average occupancy rates of 71 per cent this year and an average room rate of £40.70. Deutsche Morgan Grenfell is sponsor to the flotation.

The DIY way to survive

Ross Tieman analyses the task facing Michael von Brentano in rescuing the company

When Mr Michael von Brentano retired at the age of 65 in January, he had no idea of what lay ahead. Six months later, the former vice-chairman of BZW found himself landed with the job of orchestrating the rescue of Wickes, a leading DIY retailer.

Mr Henry Sweetbaum, Wickes chairman and chief executive, resigned on June 26 after a stormy day-long board meeting to discuss discrepancies which had been uncovered in the company's accounts. Mr von Brentano, a non-executive, was elected to the chairman's seat.

He had only two executive directors to assist, Mr Stuart Straddling, Wickes finance director, and Mr Michael Corner, the head of administration and property.

They have also recruited a new finance director, Mr Bill Hoskins, formerly of Laporte, and announced the closure of the company's head office in the West End of London, the first step in a drive to cut costs. Working with accountants from Price Waterhouse and solicitors from Linklaters & Paines, Wickes has launched a gruelling round of negotiations with its 160 suppliers to establish the full extent of the profits shortfall.

Provisional estimates suggest this could be £50m ($78m), built up over the four years ended December 1995, once tax credits are taken into account.

Several approaches have been received from rival DIY chains interested in acquiring some or all of Wickes 162 stores. But the directors are determined to avoid a fire sale at a knock-down price.

Evidence to date suggests that the core UK chain will probably be sufficiently profitable, once costs are cut, to carry on trading.

If that is the case, a large balance sheet write-down will be needed to account for the profits shortfall. The balance sheet will then have to be restored with a rights issue. Present indications are that a sum of up to £30m could be required. Credit lines will also have to be renegotiated with Barclays and NatWest, leaders of the company's banking syndicate. The need for cash could be reduced by a sale of the company's operations in France, Belgium, South Africa and the United States. But the company will have a stronger hand to maximise sale prices if it has the resources to carry on trading them for a time.

To do so it will also need a new chief executive, and new non-executives with retail experience. Combining all the pieces of the jigsaw to create a viable company with credible management will not be easy.

Wickes' board may yet receive an offer for the company that is just too good to reject. But whether they do or not, the shareholders already have cause to be grateful to a retired German banker and those within the company who have rallied to his cause.

Rising stars can go down as well as up

Nicholas Denton questions the effectiveness of the growth of the cult of personality

The fund management industry, having developed a cult of personality around its top performers, must be wondering whether it has created a monster. Peter Young of Morgan Grenfell and Colin Armstrong of Jardine Fleming were marketed to investors like stars. To all appearances, they could do no wrong — until the past fortnight.

It has emerged that Young had engaged in a complex deception involving Luxembourg holding companies, and Armstrong had diverted profitable trades into his personal account.

Deutsche Bank, Morgan Grenfell's parent, has had to inject £180m ($280m) into funds managed by Young and faces compensation claims from investors. Flemings is to pay fines of £700,000 and compensation of $19.3m. Both firms are hugely embarrassed.

Two rogue fund managers do not make an epidemic, but the formerly sedate industry can no longer think itself immune from the scandals which have hit investment banks such as Barings and trading houses such as Sumitomo.

And the star system, which fund management has borrowed from investment banking, is partly to blame.

The fund manager was until the 1980s the poor cousin of the investment banker. His role was to stump up the cash when a company decided to do a rights issue. The environment at work was sedate and the pay lower. No longer.

The prominence of fund managers is in part a function of the growing clout of the industry itself. In the 1980s came a growing acceptance that companies should be run in the interest, not of managers or employees, but of shareholders.

And these shareholders were more likely than before to be fund managers: individuals and company pension schemes have increasingly entrusted their investments to professional fund managers.

At the same time, growing competition in the industry has highlighted the importance of individuals. Fund management companies have tried to distinguish themselves in a crowded by emphasising a unique strategy, such as investing in fast growing technology stocks, as Peter Young's European Growth Trust did.

Moreover, marketing departments have found investors more ready to believe in the investment genius of an individual than

FUND MANAGEMENT

a committee. That is particularly true of retail investors, who piled into US mutual funds and UK unit trusts in record numbers last year.

But the actuarial consultants which advise pension funds on their fund managers also focus on personalities because their research shows them that a new fund manager often transforms the portfolio. In the past five years in the UK, and for longer in the US, the qualifications and record of the star fund manager have loomed larger in marketing.

For all the good reasons for a star system in fund management, there are increasingly evident drawbacks. First, at the most trivial level, marketing takes time which could be better spent analysing investments. Global Asset Management now bans its fund managers from any promotional events.

Second, not all publicity is good publicity. Jeffrey Vinik, who resigned in May as captain of Fidelity's $56bn Magellan Fund, first ran into trouble when he began talking too much to the press. He said he favoured Micron Technology while he had in fact sold shares in the company, alleged a lawsuit launched by Micron shareholders.

Third, fund managers tend to allow stars too much freedom. Colin Armstrong, chief investment officer of Jardine Fleming Investment Management, was almost completely unsupervised. His managers were loth to do anything that would upset the outstanding record of the Far East funds he managed. Armstrong felt free to engage in personal account trading on a scale which was an open secret in Hong Kong, where he worked.

And, fourth, the pressure to maintain a stellar reputation can push a fund manager over the edge. Peter Young's belief in high-technology companies turned into an obsession. A stockbroker close to Mr Young explains why his investment strategy, and behaviour, became increasingly bizarre: "When you are getting things right, you are a superstar. When things start going against you, it's another matter. There is massive pressure on these guys to perform. Peter has clearly been under a huge amount of strain."

The growth of star fund managers such as Mr Young may be a salutary warning to the industry that the cult of personality has gone far enough. But it will be hard to rein it back. After the suspension of the European Growth Trust was lifted, Morgan Grenfell's first action was to build up Stuart Mitchell, Mr Young's successor.

Takeover Panel rules may be changed

By Ross Tieman

Takeover Panel rules may need to be amended so that marketmakers are obliged to disclose holdings of more than 1 per cent in bidding companies and their targets, believes the panel's director-general, Mr Alistair Defriez.

Disclosure of holdings would improve the quality of information available to shareholders and make it impossible for corporate financiers and marketmakers in the same securities house to collude to assist a bidder.

"The introduction of greater disclosure would improve transparency and help to allay fears that the system is being abused," Mr Defriez said.

"In my personal view, the very fact of the markets being better informed will help to allay fears of collusion."

Any move by the full panel to introduce such stake disclosures would require the backing of the industry representatives, investors and City practitioners who make up its membership.

No such measures have yet been tabled. But the executive is conducting a review of the various code rules that apply to marketmakers generally. In June, it said that this review "may result in further amendments to the code in due course".

Mr Defriez's remarks are certain to focus debate on an area which has been the subject of controversy in several recent bids. In one prominent case, during April, the Panel rejected a complaint by advisers to BET, a business services group subsequently overwhelmed by a hostile £2.1bn bid from rival Rentokil. SBC Warburg was acting as adviser to Rentokil. During the course of the bid, its marketmaking arm sold a parcel of 27m shares, amounting to 2.8 per cent of BET's equity, to Salomon Brothers, which in turn sold 24m of them almost simultaneously through ABN Amro Hoare Govett to an associate company of the bidder.

Until the transactions occurred, the existence of the stake was unknown.

Marketmakers often bet on the outcome of a bid, in the hope of making a profit, by acquiring shares in the target company and going short of stock in the bidder.

The Takeover code insists that such positions are not used to benefit a party with which another part of the same firm is associated.

But Mr Defriez believes that the best way to address concerns voiced by company directors about the impact would be to require marketmakers holding more than 1 per cent of the shares in a bidder or its target to disclose their holdings.

ATHENS STOCK EXCHANGE Aug 30th - Sep 6th 1996 — GREECE

ASE INDEX	933,22	P/E (after tax) 96e/95e	11.4/12.1	GDP (USD bn) 96e	122,88
%Chg (2/1/96)	3,27	EPS GROWTH (%) 96e	11,5	Per Capita Income (USD)	11.816
Yearly High	1028,02	P/E 96e/EPS GROWTH (%)96e	0,99	Inflation Rate (% Y.O.Y, August 96)	8,50
Yearly Low	870,86	P/CE 96e/95e	8.6 / 8.9	September 12 M T-Bill rate (%)	12,70
WEEKLY VOL. (USD m)	135,15	P/BV 96e/95e	2.4 / 2.8	1-Month Athibor (%)	13,11
%Chg (Prev. Wk)	-38,05	Div. Yield (%) 96e/95e	5.5 / 4.5	GRD/US$	237,04
1 Y Wk Avg. (USD m)	150,12			A.S.E. Market Capitalisation - 6/9/96 (USD bn)	24,74
				IPOs & Rights Issues (in USD m) Jan 1 '96-Sep 6 '96	548,44

COMPANIES AND FINANCE

NEWS DIGEST

IBM to launch new mainframes

International Business Machines will tomorrow launch a new generation of high-performance mainframe computers that analysts predict could boost significantly its future earnings. IBM's share price rose $2 to close at $115¼ on Friday, following positive reports from Wall Street analysts and industry consultants briefed by IBM who see the announcement as the company's most important product introduction this year.

Long regarded as the dinosaurs of the computer industry, mainframe computers are winning a new lease of life with the introduction of CMOS (complementary metal oxide semiconductor) technology that shrinks their cost and size, while boosting performance.

The new computers, called G3 for Generation 3, bring low-cost CMOS technology to the high end of IBM's mainframe computer product line – which represents about 90 per cent of mainframe installations – for the first time. Although competitors such as Amdahl and Hitachi have announced CMOS-based mainframes, they have yet to begin shipments.

Profit margins on the new models will be "spectacular", says Mr John Jones of Salomon Brothers. Reduced manufacturing costs will boost gross margins to well above 60 per cent, he calculates. After more than a decade of decline, IBM's mainframe computer revenues should rise by 3 per cent this year to $8.7bn, predicts Mr Bob Djurdjevic, president of Annex Research, a market research company. *Louise Kehoe, San Francisco*

Compaq offers router

Compaq Computer, the world's largest manufacturer of personal computers, will today extend its push into the market for inter-networking communications products by launching a low-cost router aimed at small and medium-sized businesses.

Routers – used extensively within corporate networks – ensure data are transmitted efficiently between networks or remote offices and are one of the fastest growing segments of the network equipment and Internet market. The new router, dubbed the "Netelligent 8500", was developed in conjunction with Cisco, the US-based inter-networking equipment market leader. *Paul Taylor*

Digital targets business users

Digital Equipment, which has been struggling to improve the performance of its personal computer operations, will today launch several new PCs and related products aimed st business users. The products include desktop models based on Intel's latest Pentium Pro microprocessors as well as new laptop computers.

Louise Kehoe, San Francisco

Delhaize ahead at midway

Delhaize "Le Lion", the Belgian food retailer with extensive interests in the US, reported a 21.8 per cent increase in first-half net profits to BFr1.97bn ($65m). Without unfavourable currency movements, it forecast a "significant increase" in full-year profits for 1996. That compares with a decline in profits last year, from BFr4bn to BFr3.8bn, caused partly by currency movements. But it warned the second-half growth rate was unlikely to equal that in the first half. Turnover increased 10.9 per cent from BFr172.6bn to BFr191.3bn. *Neil Buckley, Brussels*

Borealis in US deal

Borealis, one of Europe's largest producers of plastics, has agreed the chemical industry's first pan-European distribution deal, worth $156m a year, with Ashland Chemicals of the US. Ashland is the largest distributor of chemicals and plastics in North America. The company will take on more than a third of Borealis's customers – some 1,500 plastics processors. Borealis, a joint venture between Norway's Statoil and Finland's Neste, said the handover of its smaller customers would generate significant savings. It would continue to deal directly with its 2,300 largest customers. *Jenny Luesby*

Westfield goes it alone

Westfield Holdings, a big Australian property group, and the US-based Airport Group Australia, are to abandon their consortium set up to bid for Australia's airports, which are about to be privatised. Westfield said it had decided to proceed independently, as a result of changed market conditions and the fact that Sydney airport would not be part of the first tranche. AGA added that it remained committed to pursuing the first group of airports to be auctioned – which comprise Melbourne, Brisbane and Perth. *Nikki Tait, Sydney*

Hafter plans UBS appeal

Mr Peter Hafter, a board member of BK Vision, said he would appeal against the Zurich commercial court ruling which upheld Union Bank of Switzerland's November 1994 EGM decision on the creation of single share structure. Mr Hafter plans to lodge appeals at the Zurich and Swiss federal appellate courts. BK Vision said Mr Hafter was acting on his own and it had yet to decide whether it would appeal the ruling. *AFX News, Zurich*

CORRECTION

Bank of China

Friday's item on the establishment of a UK merchant bank by the Bank of China stated that the chairman of the new bank would be Mr Wang Xuebing, President of the Bank of China. Mr Wang is to be chairman of the holding company which will own the bank. Mr C.G. Wu will chair the bank itself.

Last-minute offer for Creditanstalt

By William Hall in Zurich

The Austrian government is under pressure to rethink its approach to the privatisation of Creditanstalt following a last-minute bid from a loosely-knit consortium of Austrian and international investors for its majority stake in Austria's second-biggest bank.

The consortium, led by EA-Generali, the Austrian subsidiary of an Italian insurer, lodged its bid for the stake on Friday evening, only hours before the extended deadline. The consortium, which includes Banca Commerciale Italiana and Commerzbank of Germany, plus several regional Austrian banks with ties to Creditanstalt, has not disclosed the value of its bid, nor whether its offer is for all, or only part of the government's 70 per cent voting stake.

The government will review the bid with the help of J.P. Morgan, its financial adviser. However, Mr Viktor Klima, the Austrian finance minister, told Austrian TV on Saturday that he wanted more information on the participation of individual members of the bidding group.

Plans to privatise Creditanstalt, which have been dragging on for more than five years, suffered a serious setback on Friday when First Austrian, Austria's oldest savings bank, dropped out of the bidding consortium only hours before the final deadline.

The presence of First Austrian, which intended to combine its business with Creditanstalt's, provided the only real strategic logic for a consortium bid which some observers see as a thinly-disguised attempt to preserve the management independence of Creditanstalt.

Several foreign banks were discouraged from bidding after it became clear that the Austrian business establishment was keen to ensure control of Creditanstalt remained in Austrian hands.

As a result, the only public offer is from the current bidding consortium. In early 1995 it offered Sch9bn ($859m), or about Sch680 a share, for two-thirds of the government's ordinary shares. It subsequently made another offer, but the details were never disclosed.

The government has always made clear it wants to sell its entire stake for cash. Last year J.P. Morgan, at the government's request, estimated that its stake was worth about Sch680 a share, which could rise to about Sch910 a share if account was taken of the premium for control. On Friday, Creditanstalt's ordinary shares were suspended at Sch661, valuing the government's stake at Sch13.2bn.

First Austrian's decision to drop out of the consortium, because of a failure to agree with its partners on its future role, adds to the belief that the remaining consortium partners are unlikely to want to buy the entire stake.

Trygg-Hansa acquires Winterthur Danish unit

By Greg McIvor in Stockholm

Trygg-Hansa, Sweden's second-largest insurance group, has made its first foray into the Nordic market after a period of heavy restructuring, acquiring Tell-Forsikring of Denmark from Winterthur, the Swiss insurer.

The Swedish company said the purchase of Tell, a small telephone-based insurance business, would consolidate its presence in the Scandinavian region. Financial details were not disclosed.

The purchase reflects a growing emphasis on telephone-based insurance services. Trygg predicted the market was set to undergo extensive restructuring as financial services companies strove to cut overheads.

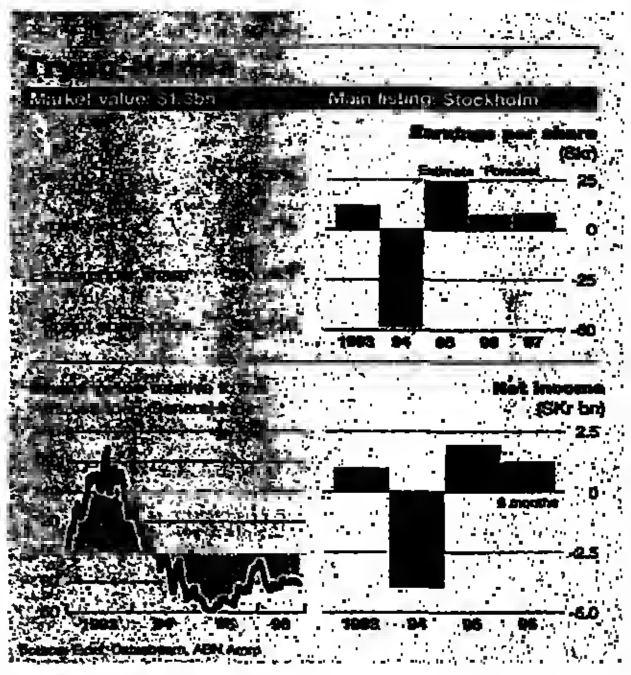
"The industry is suffering from high costs and overcapacity," said Ms Inge Lundberg, Trygg's head of investor relations. "This is the first step to reinforce our position in the Nordic market."

Tell, founded in 1992, has 40,000 customers and annual sales of DKr100m ($17.4m) but has yet to make a profit. Ms Lundberg said Trygg was confident the losses could be reversed within "a very short time".

Trygg has undergone a transformation following the appointment of Mr Lars Thunell as chief executive two years ago. It has cut costs and refocused on core operations in life assurance, casualty insurance and financial services.

In April the group acquired Hansa Kindlustus, an Estonian insurer, in a swap deal with Sampo, the Finnish insurance group. The move was Trygg's first foreign venture since its disastrous engagement with Home Holdings, a US associate it entered in 1991.

Home chalked up losses to Trygg of about SKr5bn ($752m) before it was sold to Zurich Insurance in 1995.



VW pitches Skoda against Asian competitors

By Haig Simonian in Mlada Boleslav

Skoda, the budget brand of Germany's Volkswagen cars group, has been given the role of spearheading the group's fight against cut-price Asian competition with its new Czech-built Octavia family car.

The vehicle, to be priced from DM22,050 ($15,416) in Germany when sales start next year, will be the first European saloon to match Korean brands, such as Hyundai and Daewoo, on price and will undercut comparable Japanese models.

The competitive pricing of the Octavia, which will be built at a new DM500m facility at Skoda's Mlada Boleslav plant, stems from the Czech Republic's low wage costs and the fact that the model will share many parts with other Volkswagen group vehicles.

Reflecting the "platform strategy" of Mr Ferdinand Piech, Volkswagen's chairman, in which the group's range will be simplified to four basic engineering structures (platforms), the new car will share about 50 per cent of its parts with the recently introduced Audi A3 hatchback and the fourth generation VW Golf, due next year.

The Octavia should also consolidate Skoda's financial recovery. The company, which is 70 per cent owned by VW, should break even this year after losing Kc1.6bn ($61m) in 1995 and is expected to show a healthy profit in 1997.

Production has risen strongly on the back of the revised Felicia hatchback and should reach a record 260,000 units this year. Output should increase to about 340,000 units next year, of which some 65,000 will be Octavias. Production should reach about 400,000 cars a year by 1998-99, when the Octavia will have reached its targeted 90,000 capacity.

Mr Detlef Wittig, Skoda's sales and marketing director, said production could exceed 400,000 units a year by 2000, depending on squeezing further output from Mlada Boleslav and the development of present and planned foreign initiatives.

Skoda is investing DM10m to boost Felicia output at Poznan in Poland to 25,000 units next year from about 16,000 in 1996. Felicia assembly will start this month at Minsk in Belarus and, from October, at Smolensk in Russia. The two new ventures should assemble about 3,000 Felicias each under licence at full tilt next year.

Mr Wittig said negotiations to start production were also at varying stages in India, Egypt and China. The Indian talks, with the Eicher group, could involve output of up to 60,000 Felicias and Octavias a year, he said.

Australian SE details plans for shake-up

By Nikki Tait in Sydney

The Australian Stock Exchange yesterday released details of its "demutualisation" plan, with Mr Maurice Newman, the exchange's chairman, making a strong plea that the structural change would best allow the exchange to meet future competitive pressures.

Pointing to the likely expansion of alternative share trading mechanisms, such as the Internet, and the growth in trading Australian shares on overseas exchanges, he said "demutualisation seems to us to answer some of the problems we have been facing".

"The perception that the ASX is a club is not helpful," he added.

Under the proposed changes, the nexus between ownership of a stake in the ASX and the ability to trade shares would be broken. Stockbrokers would simply be registered by the ASX – which would check their standing – while the exchange would be owned by, and answerable to, shareholders (who might or might not be brokers).

The Australian exchange is not the first to demutualise, but it would be the first to seek an active, liquid market in its shares – and possibly a listing on its own exchange if regulatory issues can be resolved. Demutualisation will be put to its members on October 18, and 75 per cent will need to be in favour for the idea to be put into practice. This would probably not happen until 1998, given the need for legislation.

Mr Richard Humphry, managing director, said interest in the proposals had been international, with the London Stock Exchange among those asking for copies of a detailed package circulated to members.

Mr Newman argued that a corporatised exchange would be better placed to pursue collaborative arrangements within the Asian region. Remote membership, he said, was "very much on the horizon".

AHP to sell foods business for $1.3bn

By Richard Waters in New York

American Home Products announced an agreement to sell its foods business to Hicks Muse, a Dallas-based buy-out firm, for $1.3bn, completing a four-month auction of the unit.

The disposal is likely to be the last by the US healthcare giant, according to one person close to the transaction. The company is seeking to reduce its borrowings and focus its resources on pharmaceuticals and healthcare businesses after its $10bn acquisition of American Cyanamid two years ago.

The deal continues a string of buy-outs of US food businesses recently, including the $2bn purchase of Borden by Kohlberg Kravis Roberts. These transactions reflect the generally strong cashflow of branded consumer goods companies, making them an attractive target for debt-heavy buy-outs, and the large amount of money that has been attracted into leveraged US investment funds recently.

AHP will receive about $1.2bn in cash and retain a 20 per cent stake in the foods company, whose brands include Chef Boyardee, a well-known make of canned pasta, and Pam, a fat-free cooking oil. The company, which was advised by J.P. Morgan, recently sold its Kolynos oral health business for $1.04bn.

The AHP foods group is in the midst of a recovery from a fall in sales during 1995. Its sales will reach $1bn this year, Hicks Muse said, representing an increase of about a fifth from the previous year. However, its generally mature brands have shown little overall increase in recent years.

Mr Tom Hicks, a Hicks Muse founder, said the firm planned to expand the foods business again, both by developing its existing brands and buying new ones. The buy-out would allow it to operate in "a more entrepreneurial fashion" outside AHP, he added.

Some $300m of the purchase price is in the form of equity, Mr Hicks said.

FINANCIAL TIMES

MARKETS

THIS WEEK

Global Investor / Peter Martin

Bonds await French budget

France's *1997 budget*, due by September 18, is the government's last chance of reconciling the top chart alongside with the two lower ones.

Though French equities *lag behind their German* equivalents, and economic growth – on a quarterly basis, at least – is similarly divergent, the bond markets cootinue to signal their firm belief in the future equivalence of inflation, currency values and government creditworthiness in the two countries.

Behind that belief lies, of course, the conviction thet currency union is unstoppable, at least for these two founding sponsors of European union. Yet if next week's bndget does not achieve its aim of making French participation in a single currency credible, the bond market's confidence may at last be shaken, as the currency market's has already been.

The budgetary test still *lies ahead, but the signs last* week were unpromising.

Preliminary GDP figures, which showed the economy shrinking in the second quarter, underlined the poor state of French confidence.

Though consumer expenditure is holding up reasonably well, business investment is particularly weak.

To a British observer, the mood is uncannily like thet which precedsd sterling's enforced departure from the exchange rate mechanism of the European Monetary System almost exactly four years ago.

Business people, in *France* now as in Britain then, remain committed to the governments economic objectives. But they are voting with their feet, or – more accurately – with their *investment plans*.

Similar moods need not, of course, havs similar outcomes.

The political stakss in France are far higher, for one thing: the single currency has long been an unshakeable part of the establishment consensus.

None the less, against this *background*, the French government dare not impose a draconian squeeze on government spending and a sharp rises in tax receipts in order to meet the Maastricht criteria.

The compromise, indicated last week, is to try to restore confidence by promises of lower income tax while tightening fiscal pressures slightly and juggling the government's books with a one-off transfer from France *Télécom'e pension fund*.

The tax plans for next year, rushed out last Thursday, do indeed provide for an immediate reduction in income tax.

But this is largely offset by rises in other taxes.

Coupled with spending cuts, the net effect, says Morgan Stanley's Paris econ*omist Eric Chaney, is mildly* restrictive – but perhaps by only FFr45bn ($8.87bn) or 0.54 per cent of GDP, less than markets have so far discounted.

"As a result," he says, "the budget deficit target for next year [3 per cent of GDP] would only buy its credibility from the France Télécom non-recurrent transfer (0.36 per cent of GDP on a net basis)."

Just how much credibility the France *Télécom transfer* can provide is open to question, however.

For the finance ministry to be reduced to such sleight of hand a good 18 months before the Maastricht test must be passed underlines the hurdles that lie ahead in meeting the criteria laid down in the treaty.

And the apparent relative improvemsnt in German growth prospects raise the stakes further. Arguably, what counts is not how close to the formal deficit and debt criteria France comes, but how near it is to matching Germany's performance.

Any further widening in the gap between the two countries would be uncomfortable.

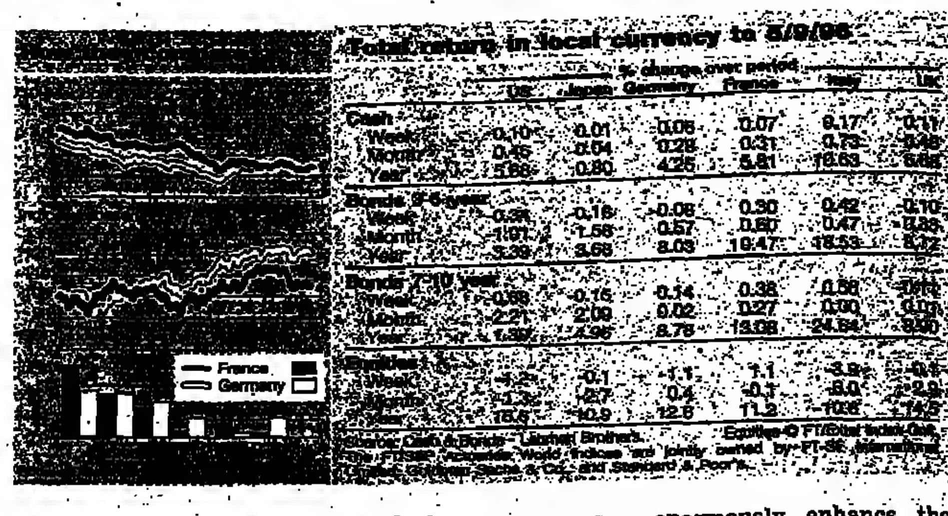
Meanwhile, investors in *the French securities* have one other thought to bear in mind. The disappearance of a bond-market yield premium over German bunds is partly a result of the heavy commitment to French government securities by French insurance companies.

Though insurance companies will do well out of managing the tax-advantaged personal pensions *announced* last week, these new funds will, in practice, be equity based.

That shift will have significant consequences.

In the long run, the growth of institutionally-managed equity funds will enormously enhances the liquidity of the French stock market. In the short run, the switch of some, at least, of the insurers' inflows of new money out of bonds and into equities would remove some of ths artificial pressures keeping French yields in lines with German ones.

And that would make the yield spread much more sensitive to the credibility of the Maastricht timetable.



Cash						
Week	0.10	0.01	0.09	0.07	0.17	0.10
Month	1.07	2.04	0.08	0.31	0.73	0.46
Year	1.66	0.80	4.26	5.81	15.03	[illegible]
Bonds 3-5 year						
Week	0.34	0.18	0.06	0.30	0.42	0.13
Month	1.07	1.56	0.57	0.60	0.47	0.33
Year	3.37	3.66	8.03	10.47	18.53	[illegible]
Bonds 7-10 year						
Week	[illegible]	[illegible]	0.14	0.38	[illegible]	[illegible]
Month	[illegible]	[illegible]	0.02	0.27	0.90	[illegible]
Year	[illegible]	4.06	8.76	13.08	24.84	[illegible]
Equities						
Week	[illegible]	[illegible]	[illegible]	1.1	[illegible]	[illegible]
Month	[illegible]	[illegible]	[illegible]	-0.1	[illegible]	[illegible]
Year	[illegible]	10.9	12.6	11.3	[illegible]	[illegible]

COMPANY RESULTS DUE

High-margin sales to US set to lift Heineken

Heineken, the Dntch brewing group, will on Friday report first-half net profits of Fl 308m-Fl 322m ($186m-$194m), or Fl 6.14-Fl 6.43 per share, according to analysts. Heineken's net profit in the same period last year was Fl 280.3m, or Fl 5.59 per share.

Analysts are looking for an 11-12 per cent rise in Heineken's sales, coming in large part from the group's *first-half* acquisitions of Fischer Group and Group Saint-Arnould in France, and of Birra Moretti in Italy, although ths new acquisitions are not seen as making significant contributions to group profits this year and analysts expect them to undergo a restructuring.

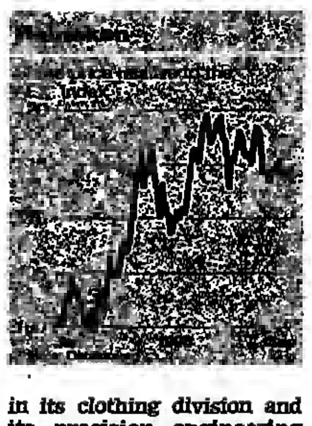
Weak sales growth in western Europe should be offset by healthy trends in Hsineken's high-margin exports to the US, they said.
AFX, Amsterdam

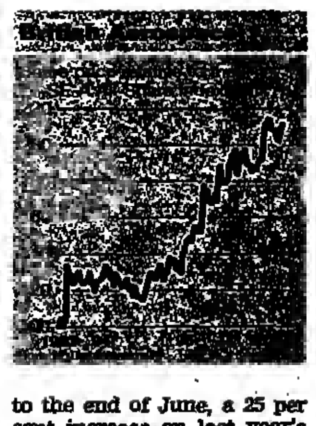
■ Hammerson: the fifth largest UK property company is today expected to report a fall in interim pretax profits from £32.1m ($50m) to about £30m excluding exceptional items, due to lost insurance income in respect of 99 Bishopsgate, the City of London office tower damaged by an IRA bomb which has now been substantially rebuilt.

■ Rexam: The City keenly awaits tomorrow's interim results from the UK printing, packaging and coatings group to hear what the new management team, led by chief executive Mr Rolf Borjesson and chairman Mr Jeremy Lancaster, has to say about strategy. Pre-tax profits are expected to fall to about £80m from £111m, with earnings per share of 6.1p.

■ Williame Hoidinge: Steady improvsment is expected at the UK building products, security and fire protection group, which rsports interim figures tomorrow. Brokers UBS are *forecasting half-year figures* of £111m before exceptional items, up from £108m last time.

■ Coats Viyella: The UK textiles and engineering group *is* expected on Wednesday to announce a fall of aroumd 5 per cent in underlying pre-tax profits in the first half. The decline follows poor trading conditions in its clothing division and its precision engineering operation, which supplies the mobile telephone market. As a result, pre-tax profits are forecast in a range from £65m to £67.5m.





■ British Aerospace: The defence company is expected to post pre-tax, pre-exceptional profits of £200m on Thursday for the six months to the end of June, a 25 per cent increase on last year's £160m. That should give earnings of abont 31p a share, up from 23p and the interim dividend should increase from 5p to 6.5p.

■ The Prudential Corporation: The UK's largest life insurer is on Wednesday expected to announce interim pre-tax operating profits of £373m, down 4 per cent. The drop in the headline figure is expected to mask an underlying rise of 8 per cent in the group's core life insurance business. Prudential's general insurance side is expected to have come under pressure from bad weather losses and competition. A dividend of 5.7p, up 8 per cent from 1995, is forecast.

■ RTZ-CRA: When the world's biggest mining company announces half-year results on Thursday analysts expect adjusted earnings to be at least 20 per cent below last year's $711m. Estimates range from $500m to $570m with an average of $539m.

■ *United News and Media:* Interim results on Thursday from the UK media and financial services company should give clearer clues on what sort of performer the company is likely to be following February's "merger" of United and MAI, the commercial television and money broker.

There is a wide range of City opinion ranging from about £134m to £148m at the pre-tax level. Analyst opinion is more united on the full year and they are looking for pre-tax profits of £285m-£290m.

■ British Gas: The interim results on Thursday will be completely overshadowed by *the final report of Ofgas's* regulatory review, which will be published a few days later and will be of far greater interest to investors and analysts than the latest earnings data.

NatWest Securities forecasts that first-half profits will have fallen to £526m from £635m.

■ United Biscuits: the McVitie's biscuits and KP snacks group is due to report on Thursday the first modest recovery from its disastrous 1995. Interim pre-tax profits should total about £45m pre-exceptionals, against £22.6m last year, but still languish below 1994's £78.9m.

■ *Legal & General:* The UK life insurer is on Thursday expected to announce interim pre-tax operating profits of £119m, compared with £117.1m. Analysts anticipate that underlying life *insurance profits* will surge ahead 38 per cent, helped by a restructuring of L&G's life fund. A dividend increase of 12 per cent to 8.6p is forecast.

■ BTR: The UK conglomerate's chief executive Mr Ian Strachan is expected to signal a strategic shift in direction when he unveils first-half figures on Thursday.

Realism enters Chinese listing

The fourth batch of Chinese companies to be selected for listing on overseas exchanges is being finalised by the government, and there may be an increase in the pace of issuance.

The China Securities Regulatory Commission (CSRC), which acts as a regulator for domestic securities markets and selects companies for listing abroad, is expected to come up with a list of between 13-20 companies in the next few weeks which will be eligible for sale to foreign investors.

This is the fourth year a group of Chinese companies will be selected for listing overseas – a process started in 1993 with nine companies and continued by 22 companies in 1994. Last year only seven companies were approved.

Howevsr, inveetmsnt bankers, jaded by their experience of trying to list Chinese companies – which are on, average, trading at 30 per cent below their offering price – are approaching the 1996 batch with caution.

One underwriter, commenting on a list of companies that circulated in the Hong Kong press, said it bore the hallmarks of an "intense regional lobbying effort".

In China, local governments and ministries compete to have companies they own included in overseas listing batches – a mechanism which has meant political lobbying is often more important in the selection process than *consideration* of what international investors actually want to buy.

The announcement of a new list of companies will however put pressure on companies from the 1994 and 1995 batches – 14 of which have not yet been listed – to come to market.

The two largest deals which are *finally showing* signs of coming through are a $300m-$350m offering led by Salomon Brothers for Datang Power – a power producer which supplies electricity to three large cities in north-east China including Beijing – and a $400m issue led by Morgan Stanley for China Eastern Airlines, one of China's most successful regional airlines.

Provided a proposed memorandum of understanding between the CSRC and the London Stock Exchange is in place, Datang Power will be the first Chinese company to list in London and Hong Kong. China Eastern Airlines will list in *Hong Kong* and New York.

Smaller companies – which will be listed exclusively in Hong Kong – will also continue to issue equity over the next three months. The first is likely to be Anhui Expressway, an infrastructure project company, being brought to market by Crosby Securities.

In the first half of 1996, listed Chinese companies put in another dismal performance, with the 20 companies listed in Hong Kong recording, on average, a 31 per cent decline in profits. However, the winding down of the austerity programme has led to a degree of optimism on the part of investors that companies will have a chance to improve their performance. Analysts hope the second half will see an improvement.

More significantly perhaps, Chinese companies are more realistic about how much capital they can raise by listing. *According to* one Beijing banker – currently bringing to market a company that was approved two years ago – there is "a greater sense of reality on the part of Chinese to what these companies are actually worth".

Chiness companies are now apparently more willing to sell off stakes at prices intermediaries are able to pass on to investors.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY SEPTEMBER 6 1996 US Dollar Index	%chg since 29/12/95	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg from 29/12/95	Gross Div. Yield	THURSDAY SEPTEMBER 5 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (78)	203.14	6.9	192.85	140.39	157.20	169.41	-0.3	4.53	204.22	193.11	140.88	157.84	171.17	212.15	179.77	188.65
Austria (24)	177.41	1.6	168.25	122.61	137.29	137.22	5.7	2.05	179.89	170.11	124.08	138.86	138.79	195.04	168.11	181.62
Belgium (27)	216.89	3.6	205.61	149.76	167.68	163.82	7.9	4.06	217.01	205.20	149.68	167.51	163.85	218.69	167.17	167.83
Brazil (28)	180.06	30.5	170.77	124.44	139.34	337.28	36.7	1.94	178.49	168.78	123.11	137.78	334.20	189.70	123.97	154.07
Canada (117)	162.91	9.5	154.50	112.59	126.07	161.93	10.5	2.24	162.51	153.67	112.09	125.45	161.15	165.12	134.14	147.89
Denmark (30)	318.61	10.4	302.36	220.34	246.71	249.08	14.4	1.94	318.86	301.53	219.94	246.15	248.45	321.04	276.69	281.14
Finland (23)	207.36	10.6	196.66	143.31	160.48	196.33	15.2	2.54	207.31	196.03	142.99	160.03	195.96	276.11	171.73	262.15
France (93)	190.68	6.3	180.84	131.78	147.56	152.11	10.5	3.19	189.99	179.66	131.04	146.66	151.45	198.39	167.70	174.64
Germany (58)	173.09	5.7	164.18	119.63	133.95	133.95	10.0	1.83	174.21	164.73	120.16	134.48	134.48	177.53	155.66	152.54
Hong Kong (59)	422.76	9.0	400.95	292.18	327.15	419.67	9.0	3.53	424.23	401.15	292.60	327.47	421.21	451.18	354.67	358.76
Indonesia (27)	190.21	–	180.40	131.46	147.19	273.87	–	1.78	189.98	179.64	131.05	146.65	273.30	–	–	–
Ireland (16)	289.56	13.3	274.62	200.12	224.06	251.56	12.0	3.50	289.96	274.15	199.99	223.83	251.35	290.82	238.46	238.46
Italy (58)	74.40	0.9	70.56	51.42	57.58	83.88	-3.9	2.57	73.26	69.28	50.53	56.56	82.67	84.53	67.22	78.46
Japan (481)	142.14	-6.2	134.81	98.24	110.00	98.24	-2.6	0.78	143.47	135.66	98.95	110.75	98.95	164.69	137.75	143.65
Malaysia (107)	550.35	13.4	521.98	380.36	425.89	529.58	11.6	1.71	552.23	522.18	380.89	426.28	531.17	595.09	425.77	497.98
Mexico (19)	1270.09	22.6	1204.56	877.78	982.86	10530.82	20.7	1.27	1256.16	1187.82	866.41	969.67	10440.09	1325.65	791.99	1200.97
Netherland (19)	297.27	9.0	281.94	205.45	230.04	226.41	13.5	3.27	298.35	282.12	205.78	230.31	226.60	304.24	245.34	250.12
New Zealand (15)	86.23	8.2	81.78	59.59	66.73	65.94	1.9	4.16	86.37	81.67	59.57	66.67	66.09	86.61	75.94	79.51
Norway (36)	253.26	9.5	240.21	175.04	196.00	219.94	10.9	2.06	252.51	238.77	174.16	194.92	219.52	259.94	222.24	232.55
Philippines (22)	201.77	–	191.36	139.45	156.14	263.50	–	0.80	203.09	192.04	140.08	156.77	265.23	–	–	–
Singapore (44)	393.78	-3.3	373.45	272.14	304.71	255.31	-3.8	1.49	396.01	374.47	273.14	305.69	256.86	465.21	360.49	362.96
South Africa (44)	344.23	-10.7	326.47	237.90	266.38	339.02	10.4	2.24	345.17	326.38	238.07	266.44	339.34	437.76	314.20	345.73
Spain (37)	173.92	5.3	164.95	120.20	134.59	165.71	9.2	3.53	173.82	164.36	119.89	134.18	165.24	183.65	146.15	151.25
Sweden (46)	362.80	16.2	344.08	250.74	280.75	357.25	16.7	2.39	361.51	341.84	249.34	279.06	355.35	364.34	284.07	294.07
Switzerland (37)	245.75	4.1	233.07	169.84	190.17	184.41	8.5	1.60	245.62	232.25	169.41	189.60	183.86	254.34	201.73	202.28
Thailand (45)	131.37	-21.9	124.59	90.79	101.66	129.25	-21.4	2.84	134.51	127.19	92.77	103.83	132.26	193.95	131.37	162.74
United Kingdom (200)	246.10	6.8	233.40	170.09	190.45	233.40	6.0	4.09	246.57	233.15	170.06	190.33	233.15	247.51	220.57	222.94
USA (624)	267.33	6.4	253.53	184.75	206.87	267.33	6.4	2.21	264.75	250.35	182.61	204.37	264.75	276.47	232.79	232.79
Americas (788)	244.74	6.9	232.12	169.15	189.39	205.94	6.9	2.20	242.47	229.28	167.24	187.17	203.91	252.43	213.58	213.58
Europe (706)	214.04	6.5	202.99	147.92	165.63	184.20	8.4	3.10	214.15	202.51	147.71	165.32	183.90	216.96	191.44	192.27
Nordic (137)	313.64	13.7	297.46	216.76	242.71	268.49	15.3	2.29	312.86	295.84	215.79	241.51	268.40	315.35	261.19	279.81
Pacific Basin (878)	156.05	-5.6	148.00	107.85	120.76	109.73	-1.5	1.26	157.35	148.79	108.53	121.46	110.60	177.01	148.66	154.22
Euro-Pacific (1584)	180.06	0.1	170.79	124.46	139.35	137.61	3.1	2.18	180.89	171.05	124.76	139.63	138.19	190.57	166.51	169.96
North America (741)	260.95	6.6	247.51	180.37	201.96	260.95	6.8	2.21	258.56	244.49	178.33	199.59	257.92	269.52	227.54	227.54
Europe Ex. UK (506)	192.10	6.5	182.19	132.76	148.66	156.46	9.8	2.54	192.07	181.62	132.48	148.28	156.17	195.76	170.61	171.72
Pacific Ex. Japan (397)	281.74	6.5	267.21	194.72	218.03	242.45	4.0	3.15	283.03	267.63	195.21	218.48	243.91	286.66	243.59	254.54
World Ex. US (1792)	181.70	0.5	172.33	125.58	140.61	142.66	3.9	2.17	182.43	172.51	125.83	140.82	142.95	191.56	167.36	171.31
World Ex. UK (2216)	204.65	2.5	194.09	141.44	158.37	173.16	4.9	1.99	204.20	193.09	140.84	157.63	172.64	213.05	185.61	186.94
World Ex. Japan (1935)	249.88	6.5	237.29	169.55	186.72	229.73	7.3	2.57	242.70	229.49	167.40	187.35	228.45	247.55	216.15	216.15
The World Index (2416)	208.21	2.9	197.47	143.90	161.12	178.49	4.9	2.19	207.83	196.52	143.35	160.48	177.98	214.95	186.87	190.08

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MARKETS: This Week

Fed-watching kept the Wall Street markets occupied all last week, and this week seems certain to be the same. Most analysts believe interest rates will be tightened within a matter of months, with new economic data providing the best clues to when Mr Alan Greenspan, chairman of the Federal Reserve, will choose to act.

Last week's unemployment figures, released on Friday, were close enough to expectations to dampen speculation of an immediate rate rise, but dealers thought of nothing else all week. The yield on the Treasury 30-year long bond has risen by 30 basis points in the past two weeks. This reflects the assumption by analysts, such as Salomon Brothers and Donaldson, Lufkin & Jenrette, that base rates will rise by 25 basis points after the Fed's open market committees meeting on September 24.

This week, attention will fix on inflation figures for August. Thursday will see producer price figures, with analysts expecting a 0.2 per cent increase for the month, followed on Friday by retail sales and consumer price figures. MMS International, the research group, says the consensus is for a hefty 0.7 per cent increase in retail sales for the month, with consumer prices up 0.2 per cent – which would strengthen the case for a slight monetary tightening.

There are a few other blots on the horizon. Companies with disappointing results to announce tend to tell the market about it as soon as they can, with the result that September, the final month of a quarter, often sees more than its fair share of bad corporate news, with a resulting impact on equity prices.

The results season gathers pace this week, providing UK investors with an insight into the outlook for corporate earnings over the remainder of 1996 and early in 1997.

A spate of results, including Kingfisher on the high street, Mirror Group in the media, electricals company Delta and building materials group Rugby, and including conglomerates such as BTR and Williams, should give a broad picture of the UK economy.

That will be backed up by figures on retail and producer prices, unemployment and average earnings, giving plenty of data for Mr Kenneth Clarke, the chancellor of the exchequer, and Mr Eddie George, the governor of the Bank of England, to debate when they next meet to discuss interest rate policy. Last week's meeting is thought to have resulted in a decision to leave rates unchanged.

Of course, the UK market can easily be distracted by news from abroad, particularly from the US, where the markets are again considering the possibility of a rise in interest rates. The 30-year Treasury yield has jumped back past 7 per cent, prompting a rise in gilt yields.

A big bid might succeed in taking the equity market's mind off economic matters, but the recent weeks of speculation have produced little in the way of actual offers – except for Booker's £264m takeover of cash-and-carry group Nurdin & Peacock, announced last week.

The FT-SE 100 index is within striking distance of its all-time high, but autumn has traditionally been a dangerous time for stock markets.

For several months now, the DAX share index has moved sideways at just above the 2,500 level without much volatility, and the little movement that has occurred was usually prompted by the release of US economic data, mostly jobs figures.

This happened again on Friday, when the Ibis-DAX shot up in after-hours computer trading from an official closing rate of 2,517 to just under 2,548, a rise of almost 26 points, buoyed by the release of strong US employment data.

German bunds were also boosted by the rise in US non-farm payrolls in August. The DTB bund contract rose by 4 basis points to 96.59 in late trade on Friday amid a generally bullish attitude among analysts.

Expectations of an increase in US interest rates combined with expectations for low and possibly falling German rates seem to dominate the mood. Forecasts for the domestic economy remain glum, with a few bright spots.

In the second quarter the economy rebounded from its winter mini-recession, with GDP up 1.5 per cent on the previous quarter, after two quarterly declines. This suggests the economy is recovering slowly within a narrow range of expectations leaving little speculative potential.

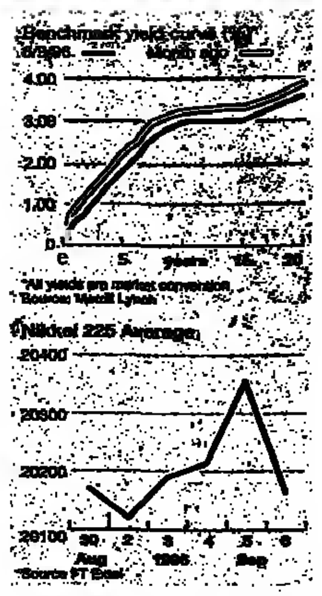
Among corporates, Lufthansa had a rough week after the cartel office began investigating the pricing structure of one of its profitable domestic routes. Over the weekend, VW hit the headlines, as Mr Ferdinand Piëch, chairman, promised to increase the return on sales more than 10-fold and to become Europe's most successful car maker by the end of the decade.

Although the Tokyo stock market last week reacted negatively to reports of a possible lower house election next month, some analysts point out that it would have minimal effects on economic policy and little impact on the financial markets.

An election could disrupt approval of a supplementary budget in parliament. Although the immediate effect of a delay in an economic package would be negative on the stock market and positive on the bond market, postponing the relatively small supplementary budget is unlikely to have a big impact, say brokers.

Mr Jason James, strategist at James Capel in Tokyo, forecasts a budget of about Y3,000bn, with actual spending of Y1,000bn to Y1,500bn. Since investors are unlikely to expect the package to provide a large boost to growth, "the impact on the economy of losing this spending would be marginal, while the passage of such a package is unlikely to generate significant excitement", he says.

Moreover, the MoF's trust fund bureau will be able to absorb any bonds issued to finance the additional spending, says Mr Marshall Gittler, bond market analyst at Merrill Lynch.



Meanwhile, although politicians' comments earlier this year that low interest rates were hurting pensioners worried some participants and created volatility on the bond market, the Bank of Japan is unlikely to raise rates ahead of the election.

Pensioners are not an organised constituency and many are strong supporters of the LDP. They are unlikely to switch their vote simply because of a promise to lift interest rates.

Prices worry cobalt industry

Combating price volatility will be one of the principal themes of a three-day cobalt industry conference begining in New York today.

"Speakers representing producers, users [chiefly manufacturers of super-alloys for the aerospace and chemical engineering industries], traders, recyclers and mine developers from around the world will discuss the issues, the strategic alliances and the market volatility problems impacting the structure of the industry," says Gorham/Intertech Consulting, organiser of the conference, entitled 'Cobalt Indnstry Restructuring '96'.

High-grade cobalt prices have recovered somewhat from recent 2½-year lows, but at about $22 a pound they remain well below the highs of around $33 at the start the year.

Metal Bulletin magazine reported last month that minor metals traders were deluging the market with bullish projections in an attempt to lift the price of the metal back to $25 a pound.

Macquarie Equities, part of the Australian banking group, said in a recent report it was widely believed that an important factor in the bear market had been aggressive "shorting" by two large trading houses.

This had been partly attributed, Macquarie said, to one of the traders pricing material bought from the US government's Defence Logistics Agency on the basis of the July Metal Bulletin price average.

"Now that the latest round of pricing is out of the way, prices are thought likely to rise again," Macquarie said.

● A five-day meeting of the International Cocoa Organisation beginning in London today is expected to focus on the threat to consumption of the commodity from a European Commission directive allowing the substitution of 5 per cent vegetable fat for cocoa butter in the manufacture of chocolate. If adopted, producers fear cocoa demand could fall by 200,000 to 250,000 tonnes a year, costing them about $600m.

PARIS

The countdown to the French budget and a continued heavy flow of corporate results are likely starting points for sentiment on the Paris bourse this week.

The countdown to the autumn budget begins in earnest with initial details due for release tomorrow, ahead of the official presentation on September 18.

Thanks partly to corporate profit news, shares prices last week largely ignored the shaky franc and disappointing news about economic growth. Investors will be hoping that more of the same can prevail this time.

Inflation figures for August are due on Friday. Before then, Renault weighs in with interim results tomorrow along with Promodes. Half-year results are due from Legrand on Wednesday, and BNP, CCF and Ciments Français are bunched on Thursday. A statement about debt restructuring is widely expected from Eurotunnel when the Channel tunnel operator reports interims today.

AMSTERDAM

The news flow from Amsterdam is not scheduled to show any real pick-up. August inflation data is due, and next week's budget statement is going to be an obvious talking point.

The budget, due on September 17, is clearly the immediate key economic focus. The main concern for the company sector is fears of an increase in tobacco and fuel duties.

Company results remain thin on the ground. There are interims from Vendex tomorrow and Heineken on Friday.

ZURICH

After a half-year reporting season that has, so far, largely failed to live up to, admittedly high, expectations, it is the turn of Nestlé to step into the spotlight on Friday, *writes Michael Morgan.*

Retail and transport stocks were out of sort last week, as were financials. Pharmaceuticals were mixed as Roche responded badly to a Merrill Lynch downgrade and further switching, particularly by US investors into the Novartis partners, Ciba and Sandoz.

Mr Frederick Hasslauer at Bank Sal Oppenheim in Zurich expects a considerable improvement in Nestlé's interim operating margin, which was depressed during the first six months of last year when the 1994 coffee price spike worked its way into the result.

He warns, however, that details of the figures may be obscured by a change in Nestlé's definition of its operating profit, which in future will include the cost of any restructuring programmes.

HONG KONG

Trading is expected to be dull this week with the ever-present prospect of rising interest rates dampening activity, *writes Louise Lucas.*

US employment data, released after the Hong Kong close on Friday, will set the tone for trading today, with the territory likely to follow the lead set by Wall Street. Also suppressing investor appetite is speculation over corporate cash calls. Recent share placements have prompted concern about over-supply. Best bets among brokers suggest the benchmark Hang Seng index may continue to drift lower.

Property stocks should move back into focus ahead of the results season starting later this month. Recently, investors have been slightly encouraged by higher than expected bids at government land auctions.

STOCKHOLM

After last week's rise in the August Purchasing Managers' Index, investors will be eager for more evidence of a cyclical upswing within the economy.

Dollar likely to stay soft until Fed rates decision

After spending much of last week waiting for US employment data, this week foreign exchange dealers may find themselves gripped by speculation over the Federal Reserve's next move on interest rates.

But that will not be until the Federal Open Markets Committee meeting on September 24, meaning the US dollar is likely to remain soft.

Instead, market interest this week will be on the remaining data the FOMC will have available when it meets. These include July consumer credit figures on Monday, the Beige Book on US economic conditions on Wednesday, August consumer and producer prices on Thursday and August retail sales on Friday.

The inflation figures due at the end of the week could be a key for bond prices, and in the FOMC's deliberations over a possible rate rise.

Weakness in the dollar's level, especially against the D-Mark, could spell trouble for the French franc. In France the focus remains on the government's budget. Mr Alain Juppé, the prime minister, unveiled his tax plans last week, and more details will emerge this week.

Perhaps more closely watched will be the reaction of the French trade unions. Thoughts of a repeat of last year's strikes could drive down the franc, and weaken hopes of the country qualifying for European monetary union. So far the reaction of the unions has been mixed, but one London analyst noted the lack of aggressive comment from the French rail unions, the source of much disruption in 1996.

Germany sees the final parliamentary vote on the 1997 budget on Friday, with a chance of further tax increases to allow it to pass under the 3 per cent budget deficit criteria for European monetary union under the Maastricht Treaty.

Inflation data in the UK this week could attract some interest, especially the August retail price index to be published on Thursday.

CROSS BORDER M&A DEALS

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Potash Corporation (Canada)	Arcadian Corp (US)	Fertilisers	$1.2bn	Sector consolidation grows
Stagecoach (UK)	Swedbus (Sweden)	Transport	$365m	Stepping into Europe
CRH (Ireland)	Tilcon (US)	Construction materials	$329m	BTR continues disposals
Sitel (US)	Mitre (UK)	Business services	$314m	Sitel pursues expansion
Air New Zealand (NZ)	Ansett Airlines (Australia)	Airlines	$257m	Finally formally signed
Campbell Soup Co (US)	Erasco (Germany)	Food	$220m	GrandMet narrows focus
Hurrican Hydrocarbons (Canada)	Yuzhnestegaz Production (Kazakhstan)	Oil & gas	$120m	Cash & debt deal
Randgold (SA)	Syama (Mali)	Mining	$53m	Buy from BHP

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday, September 6, 1996. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	7423.86	4750.00	3101.13	4344.45
Albania	(Lek)	169.423	108.375	72.8062	99.1220
Algeria	(Dinar)	84.8091	54.2500	36.4461	49.6182
Andorra	(French Fr)	7.9498	5.0853	3.4164	4.6511
Greece	(Drachma)	371.174	237.430	159.510	217.158
Greenland	(Danish Krone)	8.9761	5.7431	3.8583	5.2526
Grenada	(E Carib $)	4.2209	2.7000	1.8139	2.4695
Guadeloupe	(Local Fr)	7.9498	5.0853	3.4164	4.6511
Oman	(Rial Omani)	0.6019	0.3850	0.2586	0.3521
Pakistan	(Pak. Rupee)	55.0291	35.5844	23.9062	32.5462
Panama	(Balboa)	1.5633	1	0.6718	0.9146
Papua New Guinea	(Kina)	2.0342	1.3012	0.8742	1.1901
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

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EMERGING MARKETS By Leslie Crawford

Mexican recovery in fast lane

The government of Mexico is said to be giving serious consideration to a proposal to dedicate a monument to Mr Saddam Hussein, leader of Iraq. Whenever things go wrong for Mexico – the recent rise in US bond yields, for example, or when guerrillas burst on to the scene – Mr Hussein comes to the rescue by doing something dramatic. This triggers a rise in oil prices and showers windfall profits on Mexico, the world's third-largest oil producer.

Whether or not the statue is erected, the story underlines how important a favourable external environment has been to Mexico's rapid economic turnround.

Higher than expected oil prices will boost Mexico's fiscal revenues by an extra $2bn this year, a sum Mr Guillermo Ortiz, finance minister, plans to spend on public works to broaden the economic recovery.

Flush international capital markets have also allowed Mexico to borrow more than $12.3bn to retire part of the expensive emergency credits extended by the US Treasury last year, when Mexico was on the brink of default.

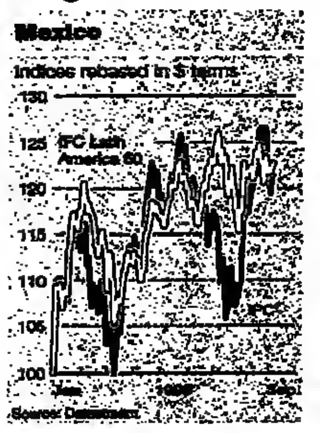
In addition, a strong US economy has sucked in Mexican goods and contributed to export-led growth. Exports reached a record $53.5bn in the first eight months of 1996, up 20 per cent year-on-year, and the sector now accounts for almost one-third of gross domestic product.

"The strength of the export sector has cushioned what would otherwise have been a brutal recession," says Mr Paulo Leme, chief economist at Goldman Sachs in New York. "A benign external environment helped fast-forward the recovery, he says, but equally important was the trade liberalisation and investment which took place before the country's financial crisis.

He also praises Mr Ortiz's orthodox policy mix of tight credit and fiscal austerity, which has gradually won back the confidence of foreign investors and returned the economy to "stable and predictable equilibrium".

These factors have already contributed to a strong rally in the stock market, which has risen 22 per cent in dollar terms this year.

Such is the confidence in Mexico's improving economic performance that a new guerrilla offensive 12 days ago barely rattled the stock market. Domestic and foreign investors were reassured by two factors. First, the new rebel group, the Popular Revolutionary Army, does not have widespread support. Second, all Mexico's political parties condemned the attacks, in which 16 people died.



Mr Leme believes there is room for equities to climb higher. "Corporate earnings will improve as the recovery gathers pace, inflation falls, and the exchange rate remains stable," he says.

Most analysts share his bullish outlook, although some are worried about the impact of a widely-predicted rise in US interest rates on Mexico's economic recovery.

"The sooner US interest rates rise the better," says Mr Oscar Vera of Deutsche Morgan Grenfell. "The uncertainty is causing more damage by holding back foreign investors."

Mr Vera and Mr Leme believe a modest rise in US interest rates, of say 50 basis points by the end of the year, will not hurt the Mexican recovery. They expect the flow of foreign direct investment – $3.1bn in the first half of 1996 – to continue despite modestly higher returns in the US. A rise in Mexican interest rates would almost certainly follow any move in the US, but is not expected to choke off domestic growth.

Mr Vera expects the Mexican peso to begin to depreciate more rapidly with a rise in US interest rates, ending the year at 8.1 pesos to the dollar against 7.55 pesos on Friday, and forecasts the IPC stock market index to rise from 3,340 on Friday to 4,150 by the year-end.

Most analysts have begun to look beyond the remaining months of 1996. "We are waiting for the government to flesh out its economic strategy for 1997, an election year," Mr Vera says.

Before October, when the 1997 budget must be presented to Congress, Mr Ortiz will be negotiating next year's minimum wage; reviewing fiscal targets and public sector tariffs; and consulting the central bank on striking a balance between growth and inflation.

President Ernesto Zedillo, in his state of the nation address on September 1, forecast 4 per cent growth for 1997. That did not set pulses racing in company boardrooms or on the stock exchange. Most were hoping for new initiatives to broaden the economic recovery and were disappointed that none was forthcoming. Economists said that even with 3.5 per cent growth this year and 4 per cent in 1997, gross domestic product will, in dollar terms, still be 19 per cent lower than in 1994.

A wider recovery remains constrained by high unemployment and lower real wages. The banking system remains fragile, and there is no sign that lending to Mexico's credit-starved corporations has resumed.

But evidence that the recovery is broadening was provided by June's industrial production figures which showed output up for the fifth consecutive month and the construction sector emerging from the doldrums with two consecutive months of modest growth.

ING BARING SECURITIES EMERGING MARKETS INDICES

Index	6/9/96	Week on week movement Actual	Percent	Month on month movement Actual	Percent	Year to date movement Actual	Percent
World (431)	157.64	-1.27	-0.80	-0.87	-0.56	+10.06	+6.83
Latin America							
Argentina (22)	90.95	+2.75	+3.12	-3.14	-3.33	-1.63	-1.97
Brazil (23)	238.18	-0.63	-0.26	-0.49	-0.20	+52.06	+27.99
Chile (16)	183.66	-1.12	-0.60	-8.52	-4.93	-11.90	-6.13
Colombia (14)	165.36	+2.13	+1.30	-4.02	-2.37	+1.11	+0.68
Mexico (24)	84.30	-0.50	-0.60	+2.76	+3.38	+10.71	+14.56
Peru(13)	1175.25	-15.92	-1.34	-31.70	-2.63	+106.30	+9.94
Latin America (112)	130.52	-0.09	-0.06	-0.76	-0.54	+16.38	+13.30
Europe							
Greece (18)	115.21	-1.77	-1.51	+7.33	+6.79	+17.24	+17.60
Portugal (20)	140.62	+1.30	+0.94	+5.14	+3.79	+24.36	+20.92
Turkey (25)	99.84	-1.63	-1.61	-4.44	-4.26	+17.04	+20.58
South Africa (30)	141.09	+2.14	+1.54	+1.58	+1.14	-12.29	-8.01
Europe (134)	122.69	+0.59	+0.48	+2.53	+2.10	+1.16	+0.95
Asia							
China (24)	45.04	-0.52	-1.15	+1.04	+2.37	+4.72	+11.70
Indonesia (31)	131.56	-1.19	-0.89	-3.82	-2.82	-7.08	-5.11
Korea (23)	103.21	+0.17	+0.15	-6.21	-5.66	-33.69	-24.61
Malaysia (23)	251.59	-4.09	-1.60	+2.68	+1.08	+24.22	+10.65
Pakistan (14)	71.63	-4.40	-5.78	-8.43	-10.52	-1.96	-2.66
Philippines (14)	325.90	-5.59	-1.69	+3.78	+1.17	+66.74	+25.76
Thailand (25)	190.81	-17.72	-8.50	-22.02	-10.36	-61.07	-24.25
Taiwan (31)	175.00	-1.25	-0.71	+0.36	+0.20	+44.18	+33.77
Asia (185)	211.32	-4.50	-2.09	-3.92	-1.82	+8.28	+4.06

All indices in $ terms, January 7th 1992=100. Source: ING Baring Securities.

Liffe takes pole position in euro contracts race

As European monetary union becomes a more tangible and realistic prospect, competition between the continent's three biggest futures exchanges – in London, Paris and Frankfurt – is hotting up. The prospective rationalisation of Europe's interest rate futures market figured high on the agenda at last week's annual derivatives conference at Bürgenstock in Switzerland.

Despite the UK government's ambivalence towards monetary union, the London International Financial Futures and Options Exchange is in pole position to lead the market in euro-denominated bond and money market futures and options contracts.

Liffe's position has been strengthened this year by the final collapse of the alliance between the Deutsche Terminbörse of Germany and the Matif of France. Last month the two exchanges quietly acknowledged that the DTB, now part of the broader Deutsche Börse, was assuming responsibility from Matif for servicing its Paris-based clients, who had originally started trading DTB contracts in 1994 as part of the link-up between the two exchanges.

The DTB and Matif had planned a common electronic system, on which they would have traded products from both markets. Matif's domination of the French 10-year government bond future and three-month Pibor contract, combined with the DTB's control of the five-year German contract and its sizeable minority share of bund business, would have posed a significant threat to Liffe.

Its failure, following strong opposition from Paris-based firms which wanted to continue dealing in French contracts on the Matif trading floor, leaves the exchanges competing directly, both with each other and with their bigger rival in London.

However, another little publicised aspect of the monetary union process could complicate matters: the timing of the conversion of debt denominated in existing currencies into euros, a process known as redenomination.

After last year's European summit in Madrid, it had been assumed that from 1999 the stock of debt denominated in existing currencies would co-exist alongside new euro-denominated until 2002, when the existing currencies are scheduled to disappear.

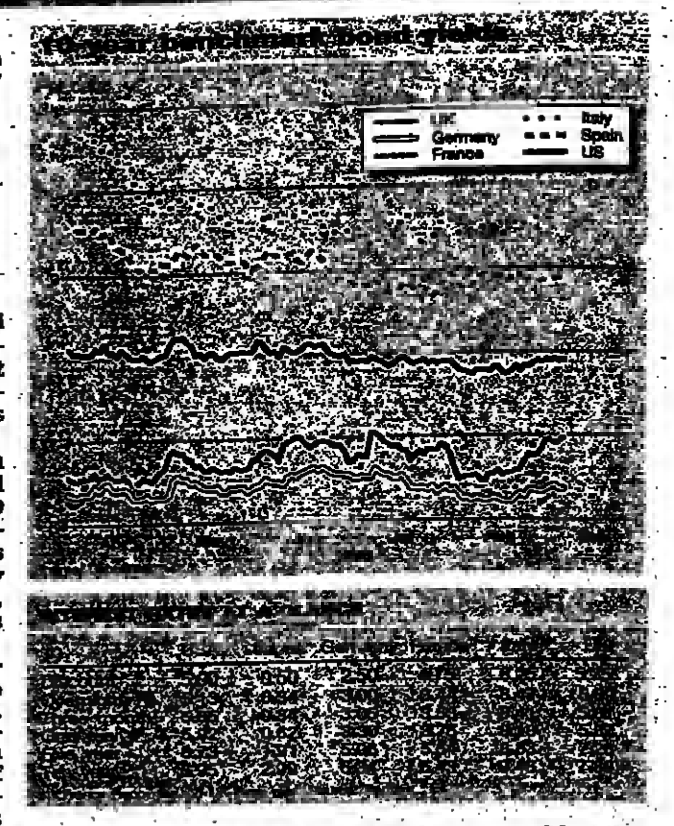
But a more rapid transition appears to be on the cards in some countries, with many European bankers favouring the conversion at a single stroke in 1999 of all outstanding debt denominated in existing currencies into euros.

The could become an important issue for the derivatives markets for two reasons. First, redenomination would instantly create liquidity in the new euro-denominated bonds, making it easier for exchanges to launch new eurobond and money market futures contracts.

Second, European Union rules are likely to leave the issue to the discretion of member states, giving rise to the possibility that the markets of France, where the government appears to be more committed to redenomination in 1999, could gain at the expense of those in Germany, where the official position is less clear.

In turn, that could directly affect the battle between the exchanges. Certainly, Mr Gérard Pfauwadel, chairman of the Matif, is hoping that his exchange can gain an advantage. He said there had been a "collective push" from the French Treasury, the Bank of France, and the French stock exchange, as well as the Matif "to accelerate the process of monetary union in the financial field".

Mr Pfauwadel said the Matif will not introduce a euro contract until the EU has decided which countries will form part of EMU and the rates at which their currencies will be converted. But he is anxious to have euro products in place from the start of 1999. It will be "an enormous advantage for exchanges to get huge critical mass from day one. We are in a business where to be first is important. The creation of liquidity can have a snowball effect," he said.



The Matif has made provision for contracts denominated in existing EU currencies which have back months beyond January 1999 to be settled in euros.

Mr Pfauwadel's opposite number at the DTB, Mr Jorg Franke, is also keen to have euro products in place by 1999, and the Deutsche Börse and the banking association is pushing the German finance ministry to redenominate existing D-Mark debt. But the exchange concedes that it has yet to win the battle.

Mr Stefan Lutz, a DTB spokesman, says: "In France, the Treasury is pushing for redenomination and the market follows suit. In Germany, the market pushes for it and the finance ministry is pulled along."

Liffe, where all euromarks and 72 per cent of bund futures are currently traded, could also be affected. As at Matif, investors can settle monsy market contracts maturing after January 1999 in euros and the market's executives are confident that they can retain business irrespective of German and French moves on redenomination.

They argue that in the cash market, even if the German authorities do not redenominate their existing debt into euros in 1999, international investors may still prefer to hold D-Mark danominated German bonds rather than euro-danominated French bonds, at least in the early stages of EMU.

While German bonds are a known quantity, new French euro-debt would be novel and seen, therefore, as more risky, they argue. This in turn would maintain liquidity in the bund contract in London.

Liffe leaders also argue that it can retain its leadership in European bond markets irrespective of whether the UK joins EMU. In any event, the outcome of the battle for the euro-denominated business looks likely to be more critical for the Matif than for either the DTB or Liffe.

While the Matif is heavily dependent on its French bond and money market contracts, both Liffe and the DTB have more diversified product bases. Ths DTB obtains nearly half its business and sven more of its income from equity derivatives products.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Coupon %	Price	Yield %	Launch spread bp	Book-runner
US DOLLARS							
[illegible]	110.35	Sep 1999	8.125	100.50	-	-	Banca del Gottardo
Inter-American Dev Bank	500	Sep 2001	6.875	99.655R	6.959	+8(6½%-01)	Goldman Sachs Intl
Deutsche Ausgleichsbank	300	Sep 2001	7.00	98.868R	7.076	+17(6½%-01)	Deutsche/Lehman Bros
Kansai International Airport	200	Oct 2006	7.25	99.23R	7.361	+27(7%-06)	IBJ International
ABN Amro Australia(a)	200	Dec 1998	6.50	99.915R	6.56	+8(6⅛%-98)	ABN Amro Hoare Govett
Kansai Electric Power	500	Sep 2006	7.25	99.313R	7.349	+33(7%-06)	Merrill Lynch/Paribas
Bayerische Hypo	200	Oct 1999	6.75	99.98R	6.758	+14(6%-99)	ABN Amro/Bear Stearns
Merrill Lynch & Co(l)‡	150	Oct 2003	(l)	99.56R	-	-	Merrill Lynch Intl
Fed Home Loan Mtg Crp(k)	300	Sep 1999	7.00§	100.00R	7.000	+41(6%-99)	Goldman Sachs Intl
Statoil	250	Sep 1999	6.625	99.815R	6.695	+30(6%-99)	Deutsche Morgan G'fell
Stadshypotek‡	200	Mar 1999	(m)	99.982	-	-	Salomon Brothers Intl
BankAmerica Corp(o)‡	500	Sep 2001	(o1)	99.967R	-	-	Lehman/PaineWebber
D-MARKS							
Bayerische Vereinsbank(b)	1bn	Sep 2001	5.25	98.97R	5.491	+30(5%-01)	(b)
Republic of Argentina(c)	375	Sep 2003	9.00	99.75R	-	-	CSFB-Effectenbank
Republic of Argentina(d)	375	Sep 2016	12.00	99.75R	-	-	CSFB-Effectenbank
Dresdner Finance(g)§	500	Oct 2001	2.25	100.00	-	-	Dresdner KB
Crédit Local de France	300	Oct 2001	5.375	99.65R	5.457	+30(5%-01)	Paribas Capital Markets
Fidelio Trust No 2(h)	75	Apr 2005	11.00§	99.75	-	-	HSBC Trinkaus
Baden Württemberg L-Fin	750	Sep 2001	5.25	99.507R	5.365	+22(5%-01)	Goldman/SBC Warburg
Synthetic Ecuador Bond Co(p)	150	Oct 2003	12.25	99.00R	12.47	+547(l)	Dresdner KB/JP Morgan
YEN							
European Investment Bank	50bn	Sep 2006	3.00	100.00R	3.000	-5½(JGB 182)	Nomura International
Volkswagen Intl Finance(f)★	10bn	Sep 1998	5.50§	100.00	-	-	Citibank International
Household Bank(Nevada)‡★	10bn	Sep 2000	2.25	100.275	2.177	-	Wako Intl(Europe)
SWISS FRANCS							
Vorarlberger L-& Hypo★	100	Oct 2000	3.50	101.25	3.162	-	UBS
Statkraft(s)	150	Dec 2002	4.00	102.65	-	-	Credit Suisse
Telekom★	100	Oct 2000	3.50	101.375	3.129	-	UBS
STERLING							
Kingdom of Sweden(s)	300	Dec 2003	7.75	99.682R	7.817	+20(8%-03)	Goldman Sachs Intl
GUILDERS							
BNG(s)	500	Dec 2001	5.25	99.46R	5.376	+8(5¾%-01)	SBC Warburg
FRENCH FRANCS							
Province de Quebec	2bn	Sep 2007	6.875	98.18R	6.984	+47(l)	Société Générale
Fed Home Loan Mtg Corp	1.5bn	Oct 2006	6.625	99.862R	6.642	+10(6½%-06)	Banque Paribas
Bayerische Landesbank	1bn	Oct 2006	6.625	99.568R	6.676	+11(6½%-06)	Crédit Agricole
Bayerische Hypo	3bn	Oct 2002	5.875	99.40R	5.997	+20(l)	CCF/Merrill Lynch
LUXEMBOURG FRANCS							
Kredietbank Luxembourg(l)	2bn	Dec 2002	6.00	102.75	5.46	-	Kredietbank Lux
Banque Indosuez(l)	2bn	Dec 2001	5.75	102.20	5.25	-	BGL
Argenta Nederland	2bn	Oct 2001	5.50	100.00	5.50	-	BCEE
AUSTRALIAN DOLLARS							
State Bank of NSW(e)‡	210	Sep 2004	(e)	99.939	-	-	Deutsche Morgan G'fell
State Bank of NSW	100	Oct 2001	7.75	101.33	7.422	-	Toronto Dominion Bank
PESETAS							
European Investment Bank	15bn	Oct 2006	8.50	100.80	8.379	-	BBV/JP Morgan
DSL Bank(q,s)	10bn	Feb 2006	8.50	103.695	-	-	BNA
CANADIAN DOLLARS							
Crédit Local de France	100	Oct 2002	7.00	99.92R	7.017	+20(7%-02)	Scotia Capital Markets
CZECH KORUNA							
BayernLB Overseas Finance	2bn	Sep 1997	11.50	100.22R	11.26	-	Bayerische Vereinsbank
NEW ZEALAND DOLLARS							
Swedish Export Credit(j)★	150	Sep 1998	7.80§	100.00	-	-	IBJ/Wako Intl(Europe)
SWEDISH KRONOR							
Crédit Local de France	500	Oct 2006	8.375	99.888	8.392	-	Enskilda

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. §Convertible. ‡Floating-rate note. ¢With equity warrants. ★Unlisted. §Semi-annual coupon and yield. R: fixed re-offer price. a) Denom: SFr50,000 +50 wts to Sumitomo Coal Mining. Exercise price: Y533. FX: 90.62Y/SFr. b) Joint book-runners: Bayerische Vereinsbank/CDC/Dresdner/Goldman/Merrill. c) Callable on 19/9/01 & on 19/9/02 at par. d) Callable on 19/9/06 & on 19/9/11 at par. e) 3-mth bank bills +16bp. f) 3-mth Libor +15bp. g) Exchangeable into Munich Re registered shares at DM3,673. Callable from 1/10/98 subject to 130% hurdle. Cash delivery option. h) Repackaged Argentine FRB Brady bonds. i) Over interpolated yield. j) Redeemed in US$. k) Callable from 18/9/97 at par. l) Long 1st coupon. m) 3-mth Libor flat. n) Fungible with Pta15bn. Plus 126 days accrued. o) Callable from Sep 98 at par. o1) 3-mth Libor +10bp. p) Oeffentliche Pfandbrief. q) Includes DM50m increase at 98.75R. s) Short 1st coupon. Note: Yields are calculated on ISMA basis.

CURRENCIES AND MONEY

POUND SPOT FORWARD AGAINST THE POUND

Sep 6		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	low	One month Rate	%PA	Three months Rate	%PA	One year Rate	%PA	Bank of Eng. Index
Europe													
Austria	(Sch)	16.3731	-0.0061	660 - 841	16.3966	16.3601	16.3438	2.9	16.2689	2.6	-	-	105.3
Belgium	(BFr)	47.9254	-0.0195	983 - 524	48.0380	47.8610	47.8304	2.4	47.6404	2.4	46.8704	2.2	107.2
Denmark	(DKr)	8.9791	-0.0032	728 - 854	8.9813	8.9695	8.9648	1.8	8.944	1.5	8.8362	1.8	108.01
Finland	(FM)	7.0530	-0.0066	468 - 591	7.0690	7.0468	7.0486	0.7	7.0405	0.7	-	-	85.1
France	(FFr)	7.9498	-0.0177	464 - 532	7.9724	7.9445	7.9356	2.2	7.9116	1.9	7.8047	1.8	108.7
Germany	(DM)	2.3270	-0.801	258 - 282	2.3323	2.3229	2.3221	2.5	2.3124	2.5	2.2702	2.4	109.1
Greece	(Dr)	371.174	-0.595	978 - 371	372.875	370.619	-	-	-	-	-	-	67.2
Ireland	(I£)	0.9640	-0.0006	632 - 647	0.9656	0.9632	0.9635	0.6	0.9628	0.7	0.9578	0.6	100.1
Italy	(L)	2359.94	-8	856 - 134	2370.30	2357.59	2365.49	-2.8	2375.34	-2.6	2407.84	-2.0	78.8
Luxembourg	(LFr)	47.9254	-0.0195	983 - 524	48.0380	47.8610	47.8304	2.4	47.6404	2.4	46.8704	2.2	107.2
Netherlands	(Fl)	2.6087	-0.0004	071 - 103	2.6204	2.6050	2.6026	2.8	2.5906	2.5	2.5429	2.5	107.3
Norway	(NKr)	10.0017	-0.0402	969 - 064	10.0494	9.9854	9.9932	1.0	9.9762	1.0	9.8927	1.1	99.0
Portugal	(Es)	238.310	-0.144	155 - 464	238.604	238.094	238.735	-2.1	239.64	-2.2	-	-	95.7
Spain	(Pta)	196.616	-0.116	491 - 742	196.966	196.266	196.876	-1.6	197.391	-1.6	198.791	-1.1	80.8
Sweden	(SKr)	10.3986	-0.0115	879 - 093	10.4250	10.3879	10.3969	0.0	10.399	0.0	10.367	0.0	88.8
Switzerland	(SFr)	1.8921	-0.0009	908 - 934	1.8969	1.8878	1.8871	3.2	1.8782	3.4	1.8281	3.4	112.9
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	85.7
Ecu	-	1.2328	-0.0017	319 - 336	1.2343	1.2316	1.2315	1.3	1.2286	1.4	1.2151	1.4	-
SDR†	-	1.078400	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5625	-0.0051	620 - 630	1.5676	1.5603	-	-	-	-	-	-	-
Brazil	(R$)	1.5906	-0.004	901 - 915	1.5959	1.5888	-	-	-	-	-	-	-
Canada	(C$)	2.1459	-0.0017	448 - 469	2.1619	2.1432	2.1452	0.4	2.1416	0.8	2.1335	0.6	83.8
Mexico	(New Peso)	11.8553	-0.0627	476 - 630	11.9368	11.8324	-	-	-	-	-	-	-
USA	($)	1.5633	-0.0046	628 - 638	1.5678	1.5610	1.5629	0.3	1.5629	0.1	1.5638	0.0	96.5
Pacific/Middle East/Africa													
Australia	(A$)	1.9604	-0.0156	591 - 616	1.9745	1.9569	1.9629	-1.8	1.966	-1.6	1.9932	-1.7	93.8
Hong Kong	(HK$)	12.0875	-0.0375	828 - 921	12.1230	12.0720	12.0794	0.8	12.0676	0.7	12.048	0.3	-
India	(Rs)	55.7313	-0.3169	013 - 622	56.1960	55.4013	-	-	-	-	-	-	-
Israel	(Shk)	4.9246	-0.0066	191 - 300	4.9755	4.9191	-	-	-	-	-	-	-
Japan	(Y)	170.923	-0.153	845 - 002	171.370	170.730	170.196	5.1	168.708	5.2	162.293	5.0	132.7
Malaysia	(M$)	3.9059	-0.0098	039 - 079	3.9159	3.9014	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2515	-0.0062	496 - 533	2.2609	2.2487	2.2586	-2.7	2.266	-2.6	2.2998	-2.1	108.7
Philippines	(Peso)	40.9863	-0.1193	385 - 341	41.0341	40.8985	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.8632	-0.0171	611 - 653	5.8799	5.8556	-	-	-	-	-	-	-
Singapore	(S$)	2.1996	-0.0072	973 - 018	2.2044	2.1973	-	-	-	-	-	-	-
South Africa	(R)	7.0443	-0.0079	361 - 504	7.0863	7.0363	-	-	-	-	-	-	-
South Korea	(Won)	1280.58	-2.81	009 - 107	1283.94	1278.94	-	-	-	-	-	-	-
Taiwan	(T$)	42.9751	-0.1345	551 - 951	43.1082	42.9236	-	-	-	-	-	-	-
Thailand	(Bt)	39.6297	-0.0918	014 - 580	39.7200	39.5930	-	-	-	-	-	-	-

† Rates for Sep 5. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

[illegible]

WORLD INTEREST RATES

MONEY RATES

[illegible]

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Sep 6		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£
Belgium	(BFr)	100	18.73	16.58	4.855	2.011	4922	5.441	20.86	497.2	410.2	21.68	3.947	2.086
Denmark	(DKr)	53.39	10	8.854	2.592	1.074	2628	2.905	11.14	265.4	219.0	11.57	2.107	1.114
France	(FFr)	60.30	11.29	10	2.927	1.213	2968	3.281	12.58	299.8	247.3	13.07	2.380	1.258

[illegible]

FT GOLD MINES INDEX

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1996 High	Low	Stock	Closing price p	+or-
14	Nil	13/9	2½pm	1¾pm	Bath Press	1¾pm	
180	Nil	2/10	29pm	10pm	Inspec Group	22pm	+2
25	Nil	18/9	4pm	2pm	Ronson	2pm	
410	Nil	18/9	122½pm	96pm	Stagecoach Hldgs	122½pm	
290	Nil	12/9	41pm	30pm	Trafficmaster	40pm	
125	Nil	18/9	15½pm	11½pm	Wyko Group	15½pm	

pm premium.

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

BASE LENDING RATES

[illegible]

BANK RETURN

[illegible]

UK GILTS PRICES

[illegible]

STOCK INDICES

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BANKS, MERCHANT

	Notes	Price	Wk% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
[illegible]								

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

CHEMICALS - Cont.

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

FOOD PRODUCERS - Cont.

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HOUSEHOLD GOODS

[illegible]

HOUSEHOLD GOODS - Cont.

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL, EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

SUPPORT SERVICES

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	W'k% ch'nge	Div net	Div cov.	Dividends paid	Last xd	City line
Anglo Am Ind		£22½xd	----	0545c	♦	May Oct	2.8	-
Barlow	♣†	[illegible]	----	091a	-	Jan Jul	17.8	-
Gold Flds Prop R		137xd	----	080c	1.5	Mar Sep	26.2	-
MK Props		[illegible]	----	0539c	-	Mar Sep	9/95	-
SASOL	♥	645	----	078c	-	Oct	9/93	-
SA Brews		£16½	----	0280c	♦	Jul Dec	3.6	4113
Standard Bank		£24½	0.3	0284c	3.1	Sep Mar	-	-
Tiger Oats	†	790	----	0114c	3.0	Jun Jul	10.6	-
Tongaat-Hulett		790xd	----	0139c	♦	Jun Jun	20.5	-

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown. Prices and net dividends are in pence unless otherwise indicated.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Dividend covers are calculated on a "net" basis.

Market Capitalisations are published on Tuesdays-Saturdays except for Investment Trusts and British Funds.

- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ф Figures or report awaited
- ♥ Rule 21(a)(v) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- ‡ Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend; cover based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Annualised dividend. b Figures based on prospectus or other official estimates. c Cents. g Assumed dividend. h Assumed dividend after scrip issue. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend excludes a special payment. t Indicated dividend: cover relates to previous dividend. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. z Dividend includes a special payment: Cover does not apply to special payment. F Dividend based on prospectus or other official estimates for 1996-97. G Assumed dividend after pending scrip and/or rights issue. H Dividend based on prospectus or other official estimates for 1995. K Dividend based on prospectus or other official estimates for 1996. L Estimated annualised dividend, cover based on latest annual earnings. M Dividend based on prospectus or other official estimates for 1995-96. N Dividend is paid in whole or part as a FID (Foreign Income Dividend). O Gross. S Forecast annualised dividend, cover based on prospectus or other official estimates. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xf ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion.

FT Share Service

The following changes have been made to the FT Share Information Service: Additions: Egypt Tst (InTs), Gall Thomson Envro, London & Edin Pblsg (AIM). Deletions: Cape 8.4pc Pf (Chem), Archaean Gold, PosGold (Extn), Greenacre (Hlth), Siam Select Wrts (InTs) INOCO (Prop) and Automated sec (SpSv).

♣ FT Free Annual Reports Service

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For readers phoning from outside UK, please dial +44 in place of the first 0.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

JERSEY (REGULATED)(**)

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Offshore Funds and Insurances

FT MANAGED FUNDS SERVICE

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	Selling Price	Buying Price	Yield Gross	City-Line
TSB Fund Managers (CI) Ltd				
TSB Island Pension	722.3	760.6	-	45932
Island Equity Acc	127.5	134.2	-	53108
WMB Asset Management (Jersey) Ltd				
[illegible]	$3017.55	1917.80	-	-
Worldinvest (Managers) Jersey Ltd				
Worldinvest Inc Fd †	$267.81	252.81	5.81	44710
[illegible] Global Eqty $ *	$77.38	17.75	-	47073
[illegible] Global Fixed Inc *	$11.75	11.82	4.92	48198

Valued weekly. * Mondays. † Wednesdays.

LUXEMBOURG (SIB RECOGNISED)

	Init Chrge	Selling Price	Buying Price	Yield Gr's	City-Line
ABN AMRO Funds (u)					
4 Rue Jean Monnet, L-2180 Luxembourg 352 4240400830					
Latin America Equity		$47.78	48.45	-	54473
North America Equity		$72.86	73.32	-	54474
Asian Tigers Equity		$59.74	60.34	-	55113
Europe Equity		$90.27	90.82	-	55109
Germany Equity		[illegible]	125.18	-	54475
Japan Equity		$48.55	49.04	-	55114
Europe Bond		$59.26	59.43	-	54405
UK Bond		$37.17	37.31	-	55111
Global Bond		$56.15	56.28	-	55110
Germany Class B		[illegible]	100.75	-	54477
Spain Bond		[illegible]	9536	-	55112
Eastern Europe Equity F		[illegible]	151.15	-	[illegible]
China Equity F		$53.80	54.25	-	[illegible]
Switzerland Equity		[illegible]	110.59	-	[illegible]

Abtrust Fund Mngrs Luxembourg SA (u)

4 Boulevard Royal L 2449 Luxembourg

Fidelity Funds (u)

Fleming Group (u)

Mercury Asset Management S.A.

LUXEMBOURG (REGULATED)(**)

Asian International Umbrella Fund (u)

Alliance Capital

Credit Investment Funds - Contd.

Merrill Lynch Asset Management - Contd.

State Street Luxembourg SA

Svecia Securities

CMI Ins Co Ltd/Clerical Med Gen Life

OFFSHORE INSURANCES

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Offshore Insurances and Other Funds

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	Selling Price	Buying Price	Yield Gross	City-Line
Old Mutual International (Guernsey) Ltd				
PO Box 121, St. Peter Port Guernsey				01481 726726
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Selling Price	Buying Price	Yield Gross	City-Line
Alliance Capital				
International	$17.25	18.03	-	44689
International Class B	$16.73		-	42451
Growth	$28.11	27.27	-	44671
Growth Class B	$24.45		-	43828
Global Small Cap	$12.01	12.54	-	44673
Global Small Cap Class B	$11.40		-	50254
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER OFFSHORE FUNDS

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

PACIFIC

AFRICA

NORTH AMERICA

INDICES

US INDICES

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Pepsico	6,897,000	29⅝	+⅛
Gap	6,235,400	30⅞	+1½
Office Dep	4,585,100	20¾	+⅛
K-Mart	3,604,900	10⅜	+⅜
Ford	3,421,000	31⅞	-⅛
Hew-Packard	3,184,000	43⅝	+⅝
Coca Cola	3,119,600	51½	+1½
Merck	2,935,000	64⅝	-⅛
Hanson	2,648,000	13⅛	+½
Compaq	2,439,900	57⅝	+1

■ TRADING ACTIVITY

● Volume (million)

	Sep 6	Sep 5	Sep 4
New York SE	350.875	355.468	353.561
Amex	16.958	19.728	14.100
NASDAQ	(c)	471.250	450.878

NYSE	Sep 6	Sep 5	Sep 4
Issues Traded	3,182	3,185	3,174
Rises	1,651	752	1,378
Falls	696	1,597	937
Unchanged	835	752	859
New Highs	59	48	75
New Lows	27	25	25

■ S&P 500

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	648.70	658.25	+9.25	659.80	642.00	78,039	153,890
Dec	656.50	664.25	+9.35	665.50	655.80	12,977	46,397

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	20276.0	20250.0	-160.0	20320.0	20130.0	18,896	177,329
Dec	203.000	20260.0	-160.0	20330.0	20140.0	22,249	159,863

Open interest figures for previous day.

INDEX FUTURES

■ CAC-40 (200 x Index)

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	1991.0	2016.5	+13.5	2017.0	1979.0	23,299	28,545
Oct	1996.0	2021.5	+13.5	2018.0	1995.0	142	4,369

■ DAX

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	2529.0	2547.0	+12.0	2547.5	2516.0	21,192	–
Dec	2547.0	2565.0	+12.0	2568.0	2534.0	1,582	–

■ OMX

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	1555.00	1571.00	+10.00	1574.00	1548.00	4,147	22,184
Oct	1561.00	1576.00	+15.00	1578.25	1560.00	380	1,287

■ SOFFEX

	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Sep	3516.0	3647.0	+13.0	3652.5	3603.5	6,698	25,527
Oct	3621.0	3652.0	–10.0	3630.0	3618.0	102	736

... Base values of all indices are 100 except Australia All Ordinary and ... Toronto Comp/Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. ... (c) Closed. (u) Unavailable. † IBIS/DAX after-hours index: Sep 6 – 2542.74 +10.19

1 Correction. ^ Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ▼ Subject to official recalculation.

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year high and low. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. 1 Priced in US $.

■ TOKYO - MOST ACTIVE STOCKS: Friday, September 6, 1996

	Stocks Traded	Closing Prices	Change on day
NKK Corp	7.6m	266	-3
TYK Corp	6.2m	1730	-30
Kanematsu Corp	5.8m	544	-21
Kobe Steel	5.3m	284	-6
Sumitomo Seika	4.5m	733	+3
Showa Denko	4.1m	303	+1
Clarion	3.6m	600	-7
Fuji Kosan	3.5m	479	-11
Nippon Steel Cp	3.0m	351	+4
Toshiba Corp	3.0m	698	-2

NEW YORK STOCK EXCHANGE PRICES

4 pm close September 6

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

Continued on next page

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NYSE PRICES

4 pm close September 6

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close

Continued from previous page

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
32⅞	22¾	SchwMaud	0.50	1.9	13	131	21⅞	31⅛	31⅝	
20⅜	12	SciAtl x	0.20	0.5	158	2730	12⅞	12½	12½	-⅛
22⅞	17	Scotsman	0.19	0.4	12	71	d22⅝	21½	22⅜	+1
47½	36⅛	Scripps x	0.52	1.2	25	695	44⅞	44½	44⅝	+⅛
16⅛	13⅛	ScuddrNAsF	0.02	0.2		118	15¼	13⅛	13⅛	+⅛
13¾	11	ScuddrNEsF	0.18	1.2		94	d13¼	13	13⅛	+⅛
20½	12	SeaCnB	0.17	9.9	25	27	18⅛	18⅞	13⅛	+½
16	15	SeaC1.4625	1.49	9.4		z100	15⅝	15⅝	15⅝	-¼
67¾	38⅛	S'gate			22	9160	47⅞	45¾	46	+½
36⅞	30⅞	Seagrm	0.60	1.8	26	3132	33⅞	33½	33⅝	+⅛
26	17⅛	Seagull En	1.20	6.6	11	1402	18⅛	17⅞	18¼	+⅛
39	29	Sealed Air	0.64	1.7	25	402	37½	36¾	37½	+⅝
53⅞	38¼	SearsR x	0.92	2.1	16	10010	44¾	43⅝	44½	+1½
22⅝	19¼	SecCapSGI	1.24	6.0	19	257	20⅞	20⅝	20¾	
13	11⅞	Seligm Sel	0.84	6.9		194	12⅝	12¼	12¼	
22¾	13⅝	Sensormat	0.22	1.2	13	675	18¼	17⅞	17⅞	-⅛
45⅛	29½	SequaA	0.60	1.3	61	147	44⅝	44½	44½	-⅛
61¼	30	SequaB	0.60	1.6	20	16	d51¼	50	51¼	
30¼	19½	SarvCo	0.24	0.8	27	3764	28¼	28	28¼	
24½	19½	SrvMstr	0.66	2.8	13	1056	24	23¾	24	+¼
5¾	4½	SansMerch			16	1992	4⅞	4⅞	4⅞	+⅛
48¼	28½	SGSThm			8	4994	41	39⅝	39⅞	-⅛
15⅝	10⅞	Shaw Ind	0.30	2.1	27	395	14⅞	14⅝	14⅝	-⅛
13½	10⅛	Shelby Wil	0.32	2.4	13	109	13¼	13	13¼	+¼
96½	78⅛	ShellTr	3.26	3.6	18	959	90	89⅛	89¾	+¼
47½	30	ShrW	0.70	1.6	17	2827	43¼	42¼	43	
13⅝	7⅞	Shoneys			10	467	9⅜	9	9⅜	+⅛

- V -

- W -

- X - Y - Z -

- T -

- U -

NASDAQ NATIONAL MARKET

4 pm close September 6

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng

- A -

- B -

- C -

- D -

- E -

- F -

- G -

- H -

- I -

- J -

- K -

- L -

- M -

- N -

- O -

- P - Q -

- R -

- S -

- T -

- U -

- V -

- W -

- X - Y - Z -

AMEX PRICES

4 pm close September 6

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng

FT GUIDE TO THE WEEK

MONDAY 9

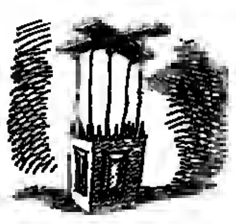
Ulster talks resume

Northern Ireland's multi-party talks resume, with London and Dublin anxious that substantial negotiations should start as soon as possible in the wake of the summer's increasingly bitter sectarian unrest between Protestants and Roman Catholics. An agenda for the talks has still to be agreed. Unionists are expected to press for the exclusion of the small *fringe* parties, which have been linked with paramilitary death threats against two recalcitrant loyalists. The moderate nationalist Social Democratic and Labour party is keen the issue should not be used by unionists as a pretext to delay the talks.

Spain in Nato upgrade plan

Plans to upgrade Spain's role in a new-look Nato will be discussed by Javier Solana, the alliance's secretary-general, in an official visit to his home country. Spain, like France, intends to participate fully in a new military organisation based on joint task forces. However, the change is vigorously opposed by the communist-led United Left party, which says it contravenes the terms of the country's 1986 referendum on Nato membership. The government of José Maria Aznar says it will put the issue to parliament this autumn.

Andreotti in the dock



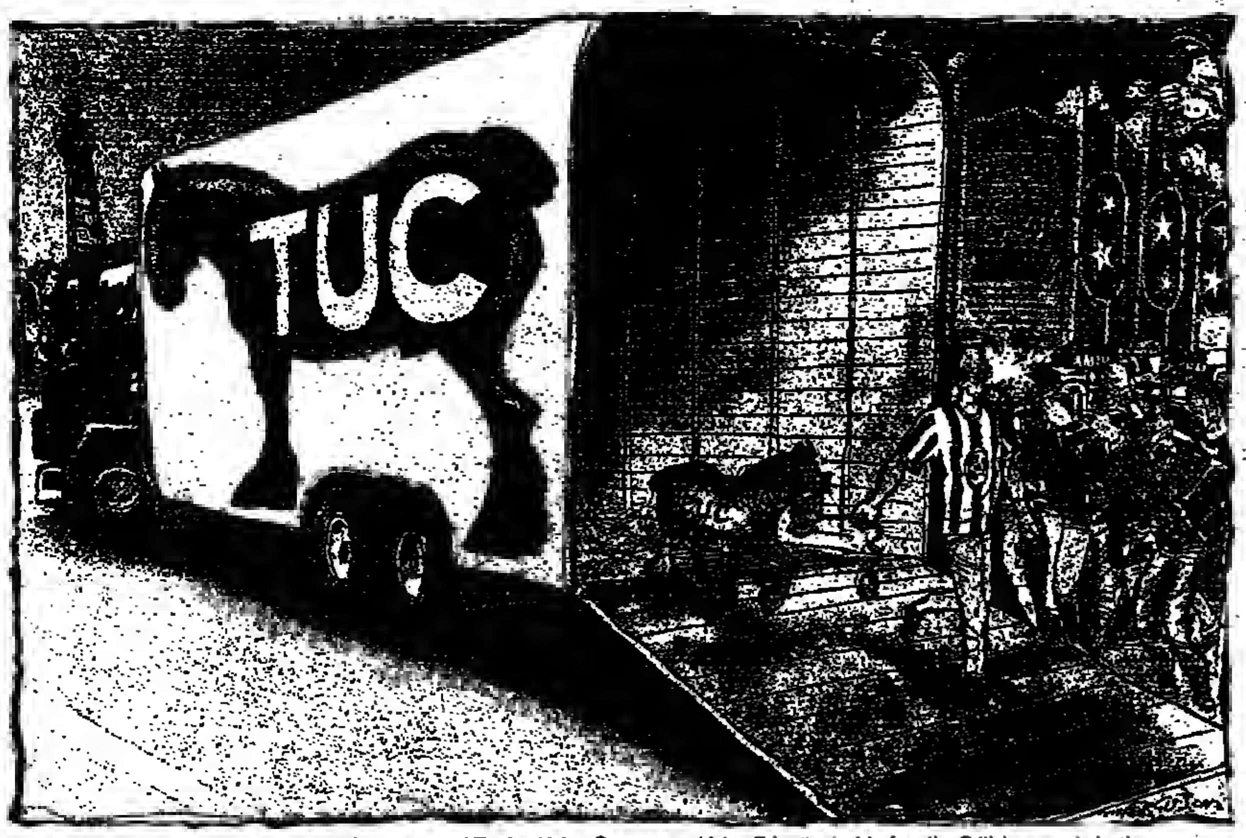
The Italian city of Perugia provides the setting for the trial of Giulio Andreotti, the former prime minister, on a charge of complicity in murder (to Sept 13). Testimony is expected from Tommaso Buscetta, the *super-pentito* or super-repentant mafia *capo*. Andreotti and others are accused over the murder of Carmine Pecorelli, a journalist, in 1979.

Netanyahu sees Clinton

A possible resumption of peace talks between Israel and Syria is expected to top the agenda when Benjamin Netanyahu, the Israeli prime minister, meets US President Bill Clinton in Washington. The Israeli foreign minister, David Levy, will be in Germany. Meanwhile, Israeli-Palestinian peace negotiations are scheduled to get back on track with a meeting of their steering committees.

TUC conference opens

Britain's Trades Union Congress opens in Blackpool (to Sept 13). It will be the last annual conference of Britain's trade union movement before the next general election. Strenuous efforts will be made by delegates to be on their best behaviour as they are desperate to see a Labour party victory. But debates over a national minimum wage target, European economic and monetary union, and the introduction of new trade union rights may produce divisions. However, most union leaders are keen to demonstrate their enthusiasm for the party even if some dislike its leader Tony Blair's determination to distance it from them.



Delegates gather in Blackpool this week for the annual Trades Union Congress, which will be the last before the British general election

Battle over deforestation

Government delegates meet at a UN-sponsored meeting in Geneva to discuss recommendations on forest conservation for endorsement at the United Nations "Earth Summit II" in New York next June (to Sept 20).

Bribery findings in India

India's central bureau of investigation is to present its findings to the supreme court in an alleged bribery case in which four members of a minor Indian party were arrested late last week, and in which P.V. Narasimha Rao, the former prime minister, has been questioned.

FT Surveys

Birmingham and West Midlands; Reinsurance.

Public holidays

Belize, Mozambique, Tajikistan.

TUESDAY 10

German budget presented

Germany's 1997 draft federal budget comes before the *Bundestag* for its first reading. Theo Waigel, the finance minister, aims to cut federal spending by 2.5 per cent next year as part of an ambitious effort to meet the Maastricht treaty criteria for economic and monetary union. Opposition parties will claim the minister's plans are unrealistic in the light of the government's inability to control costs this year. Separately, a key element of Bonn's economic strategy – measures to cut spending, restructure the welfare state and reduce non-wage labour costs – is due to clear its last parliamentary hurdle on Friday.

EU vets debate mad cows

The EU standing veterinary committee starts a two-day meeting in Brussels. The vets will discuss revelations that mad cow disease can be transmitted from cow to calf. There are concerns that the latest evidence could lead to calls for Britain to kill more cows under a selective slaughter programme designed to eliminate BSE.

Arafat in Tokyo

Yasser Arafat, the president of the Palestinian Authority, is to visit Tokyo in response to an invitation from Tomiichi Murayama, the former prime minister. Mr Arafat is to discuss the Middle East peace process with political leaders and will meet Emperor Akihito and Ryutaro Hashimoto, the prime minister, among others.

Public holidays

Belize, Gibraltar.

WEDNESDAY 11

Chirac visits Poland

Jacques Chirac, the French president, begins a two-day visit to Poland, during which the Poles will want to fathom the extent of France's interest in playing a role in central Europe and seeking to balance German and Russian influence there. Also, they will argue that France should focus more attention on the issue of Poland's entry into the European Union.

Public holidays

Chile, Ethiopia, Pakistan, Spain (Catalonia only).

THURSDAY 12

Asean free trade moves

Progress on the Asean Free Trade Area (Afta), which is pushing its own free-trade agenda, will be the focus of economic ministers of the Association of South-east Asian Nations (Asean) at its annual meeting in Jakarta (to Sept 13). Afta has agreed to lower tariffs to a maximum of 5 per cent by 2003. Also on the agenda is deregulation of the services industry among member states – Indonesia, Malaysia, Singapore, Vietnam, Brunei, Thailand and the Philippines.

Political funding in Japan

With an election widely expected within a few months, Japan's home affairs ministry makes its annual announcement of the funds which the main political parties admit to have raised the previous year. Last year tough regulations on how much could be raised from private donors were introduced in an attempt to curb political corruption – and a Y30.1bn (£176m) public subsidy for parties' funds was established to compensate.

FRIDAY 13

Asean meets partners

Asean economic ministers are to hold meetings with four of the grouping's closest partners – Japan, Australia, New Zealand and the US. The delegation from Japan's ministry of trade and industry is likely to discuss Indonesia's "national car" project, over which Japan has threatened to take Indonesia to the World Trade Organisation.

Referendum in Morocco

Moroccans vote on a constitutional reform put forward by King Hassan II, paving the way for general elections. The change involves a two-chamber parliamentary system in place of the current single chamber. All members of the lower house would be directly elected – instead of two-thirds under the present system, which opposition parties have always complained is weighted against them. A new chamber of councillors, representing local bodies, professional groups and trade unions, would also be created.

FT Surveys

Infrastructure in Latin America; Kansai.

SATURDAY 14

Elections in Bosnia

Bosnia's Moslems, Croats and Serbs vote just nine months after signing the Dayton peace agreement, ending the bloodiest conflict in Europe since the second world war. About 2.9m voters – more than half refugees – are eligible to vote in four ballots for offices in a very decentralised government whose structure is ostensibly to unify Bosnia's halves: the Bosnian Serb entity and the Moslem-Croat Federation. The same nationalist parties that waged war against each other are likely to capture the poll, which is being held in spite of the absence of freedom in most parts of the country.

Reform moves in Algeria

Political leaders in Algeria are invited by the president, Zeroual Liamine, to a two-day conference which may pave the way for a general election. This follows talks between the presidency and the parties that have yielded plans to reform election laws and ultimately ban Islamist parties. There has been no parliament since 1992.

FT Survey

FT Guide for the Serious Investor.

Public holiday

Israel, Nicaragua.

SUNDAY 15

Elections in Lower Saxony

Elections in the northern German state of Lower Saxony will shed light on how Gerhard Schröder, one of the most powerful figures in the opposition Social Democratic party, is faring. Mr Schröder secured an absolute majority in his home state in 1994. However, his star may be on the wane following efforts to trim the state's bloated budget and a noisy split from his wife.

Havel tours Brazil

Vaclav Havel begins a six-day visit to Brazil, the first by a Czech president. He meets Fernando Henrique Cardoso, the Brazilian president, before travelling to the Amazon city of Manaus – where he will be the first foreign president to visit an Indian reservation. The trip by Mr Havel, who will also travel to Sao Paulo and Rio da Janeiro, was prompted by his interest in environment and development issues. He will continue to Chile, Argentina and Uruguay (to Sept 28).

Human chain in Italy

In Italy, the Northern League's three-day festival of self-determination concludes with a human chain celebrating a "solemn ceremony of the birth of the Po Nation". The festival starts at the source of the River Po, where water will be collected and some turf cut. Supporters will take these downriver, collecting produce and products in Piedmont, Lombardy, Emilia and the Veneto. They will be deposited in Venice, where a declaration of independence will be read and Umberto Bossi, the League's leader, will speak.

Chess

Nigel Short leads England in the 130-nation Chess Olympiad at Erevan, Armenia (to Oct 2). The team was runner-up to the former Soviet Union three times in 1984-88 and has its best chance yet for a gold medal. Garry Kasparov leads the Russians.

Horse racing

The 1¾-mile St Leger, last of the season's English classic races, is run at Doncaster racecourse.

Cycling

World mountain bike championships, Cairns, Australia (to Sept 22).

Public holiday

Costa Rica, El Salvador, Guatemala, Honduras, Israel, Nicaragua.

Compiled by Simon Strong. Fax: (+44) (0)171 873 3194.

ECONOMIC DIARY

Other economic news

Monday: UK industry's output costs are expected not to have have changed last month, although raw material costs are thought to have risen a little. Growth in US consumer credit is thought to have slowed a little further in July.

Tuesday: The US current account deficit is forecast to have widened in the second quarter of the year, while wholesale trade growth may have stepped up in July. Mexico's unemployment rate is thought to have declined a little in August.

Wednesday: The decline in UK unemployment is thought to have slowed last month, but to be in line with the underlying trend of recent months. Canadian raw material inflation may have accelerated in August.

Thursday: The headline inflation rate in the UK is forecast to have fallen last month, although the fall in the underlying rate should have been less dramatic. US producer price inflation should have picked up in August, while Australian unemployment was stable.

Friday: Growth in US retail sales is forecast to have risen last month.

Statistics to be released this week

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
Mon	UK	Aug producer price index input*	0.3%	0.2%
Sept 9	UK	Aug producer price index input**	-2.2%	-2.1%
	UK	Aug producer price index output*	0.0%	-0.1%
	UK	Aug producer price index output**	2.0%	2.2%
	UK	Aug PPI ex food, drink and tobacco**	1.4%	1.7%
	US	Jul consumer credit	$7.5bn	$8.3bn
Tues	Japan	Jul machine orders ex elec & ships**	11.0%	3.2%
Sept 10	Japan	Jul machine orders ex elec & ships*	3.5%	-8.6%
	Canada	Aug housing starts, units		129k
	Canada	Q2 industrial capacity utilisation		82.8%
	US	Q2 current account		-$35bn
	US	Q2 productivity revenue		-0.1%
	US	Jul wholesale trade		0.3%
Wed	UK	Aug unemployment	-15k	-24k
Sept 11	UK	Jul average earnings	3.75%	3.75%
	UK	Jul unit wages 3M**	3.2%	3.3%
Thurs	UK	Aug retail price index*	0.3%	-0.4%
Sept 12	UK	Aug retail price index**	2.0%	2.2%
	UK	Aug retail price index X**	2.7%	2.8%
	UK	Aug retail price index Y**	2.3%	2.4%
	US	Aug PPI ex food and energy	0.2%	0.1%
	Canada	Jul motor vehicle sales*		1.9%
	US	M1, week ended Sept 2	$2.1bn	$2.9bn
	US	M2, week ended Sept 2	$8.0bn	$2.5bn
	US	M3, week ended Sept 2	$5.3bn	$7.1bn

Day Released	Country	Economic Statistic	Median Forecast	Previous Actual
	US	Aug monthly M1	-$2.0bn	$8.2bn
	US	Aug monthly M2	$11.7bn	$6.4bn
	US	Aug monthly M3	$15.5bn	$10.4bn
	Spain	Jun industrial production**	-2.8%	-3.3%
Fri	Canada	Aug cons price index, all items* nott		0.0%
Sept 13	Canada	Aug cons price index, all items** nott		1.2%
	Canada	Aug CPI, ex food and energy** nott		1.4%
	US	Aug retail sales	0.7%	0.1%
	US	Aug retail sales, ex cars	0.5%	0.3%
	US	Aug consumer price index	0.2%	0.3%
	US	Aug CPI, ex food and energy	0.2%	0.3%
	US	Aug real earnings		-1.5%
	US	Aug bank credit		-1.1%
	US	Aug C&I loans		5.9%
During the week...				
	Germany	Jul capital account		DM1.2bn
	Germany	Jul net foreign securities purchases		DM16.7bn
	Germany	Jun retail sales, real**	-1.0%	-3.0%
	Germany	Jun retail sales*†	0.0%	-1.0%
	Germany	Aug final cost of living, west*		0.4%
	Germany	Aug final cost of living, west**		1.8%
	Germany	Aug final cost of living, pan-Germany*	-0.1	0.3%
	Germany	Aug final cost of living, pan-Ger**	1.4%	1.6%
	Germany	Aug wholesale price index*	-0.2%	-0.5%

*month on month, **year on year. Statistics, courtesy MMS International.

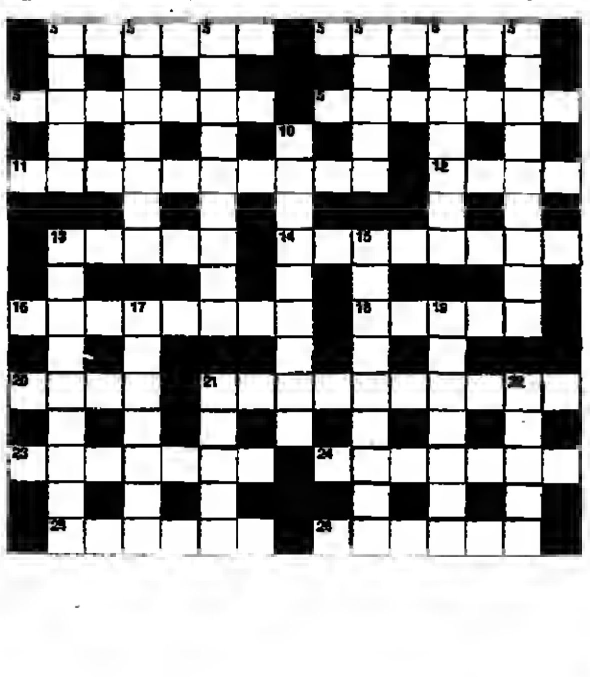
MONDAY PRIZE CROSSWORD

No.9,168 Set by DANTE

A prize of a Pelikan New Classic 380 fountain pen for the first correct solution opened and five runner-up prizes of £35 Pelikan vouchers will be awarded. Solutions by Thursday September 19, marked Monday Crossword 9,168 on the envelope, to the Financial Times, 1 Southwark Bridge, London SE1 9HL. Solution on Monday September 23. Please allow 28 days for delivery of prizes.

Name

Address



ACROSS

1 Seal up sick note written by doctor (6)
4 Note old boy network in Shakespearean play (6)
8 Pasta cooked the country way – to sink in the middle (7)
9 He refuses to work for more pay, perhaps (7)
11 Famous Western stage partnership (5,5)
12 Fish spear (4)
13 A Russian twice pockets gold (5)
14 Take the plunge? Even so I'd make a mess of it (4-4)
16 Withdraws from agreement in which officers are involved (5,3)
18 Sing sloppy corn about love? (5)
20 In ancient myth she became a goddess (4)
21 Mineral water for the Londoner (10)
23 Blimey, Alec's capsized the boat (7)
24 A canoe I see around Pacific islands (7)
25 Items on it may be debated a long time and amended (6)
26 Country editor beset by bad news (6)

DOWN

1 Destroy note written in Gaelic (5)
2 Vessel churning up water left and right (7)
3 Public declaration in the show-ring (9)
5 Best at the barbecue (5)
6 Beaten by a whisker (7)
7 Emerge neither winner nor loser, still after a bit of luck (5,4)
10 Farms torn apart in change (9)
13 A lone crab scuttles round by the sea in Spain (9)
15 Counterpart to a Papal bull that's beyond criticism? (6,3)
17 Leave scribbled note offering lift (7)
19 Apparent, but not in a sister's concern (7)
21 Firm I didn't buy out (5)
22 Scot gets a lift with sailors in Scotland (5)

Winners 9,156

Theresa Castillo, Malta
Mrs L. Barwick, Frimley Green, Surrey
G. Carter, London EC
P.A. Fox, Beauchief, Sheffield
E.K. Goldwin, Seaford, East Sussex
H.V.S. Page, Lymm, Cheshire

Solution 9,156

JOTTER PAD

هكذا من الاصل

Environmental liability: by Trevor Petch

Cleaner laws planned for the EU

Burning PVC during the Düsseldorf airport fire caused dioxin contamination

Europe is trying to harmonise national regulations about pollution

Headlines are grabbed by environmental liability insurance mainly when it concerns the US, where paid losses and loss reserves for non-asbestos pollution cost the insurance industry $22.8bn between 1991 and 1995. Disputes about what makes pollution "sudden and accidental" or "gradual", or "intentional", and which policies written in the past have valid claims upon them and which do not, have cost insurers millions of dollars in legal fees alone.

A crucial issue is what triggers the liability in the policy. Until the early 1980s, the "occurrence" wording was standard: the policy pays if the incident occurred while the policy was in force. Since 1986, cover for pollution has been written (if at all) on a "claims-made" form: the policy pays if a claim is notified during the policy period.

In Europe, the issues are less well reported. In 1993, the European Union (EU) green paper on Remedying Environmental Damage was published, followed by extensive consultations. Last spring, specially commissioned studies by lawyers McKenna & Co and ERM Economics were completed to identify the implications of the disharmony in national regulations.

Any EU harmonisation will concentrate on future liability for future damage, wherever possible leaving the minefield of existing pollution and its clean-up to member states. EU environment commissioner Ritt Bjerregard is due to present proposals to the EU College of Commissioners by the end of this year.

Three options are under consideration. The simplest is a direct legislative proposal in the form of a draft directive, however hard that may be to formulate. An alternative would be to move from the green paper to a white paper of broad policy proposals, but this would inevitably lengthen an already drawn-out process.

Also possible is some form of accession to the Council of Europe convention on civil liability for damage to the environment (the Lugano Convention). This is not in force, having failed to receive any of the three national ratifications required since it was opened for signature in mid-1993, although it has been signed by five EU member states (Finland, Greece, Italy, Luxembourg and the Netherlands) and three other European Economic Area members.

These are the countries most in favour of a harmonised regime. In addition, new EU members Austria and Sweden both have strong domestic environmental lobbies and, like Finland, existing legislation in many areas tighter than existing EU standards. Their accession agreements allow these to be maintained for four years pending a Commission review of the EU regime as a whole.

There is enormous variation in insurance provision for "gradual" (rather than "sudden and accidental") pollution in the EU. Special environmental insurance pools have been established in five countries, of which the most developed is probably Assurpol in France, established in 1977. In Italy, where by historical accident there is a long-standing absolute exclusion of environmental pollution from general liability policies, cover has been available from the Inquinamento pool since 1979. In the Netherlands, the MAS pool established in 1984 concentrates mainly on agricultural pollution and small businesses. Newer vehicles exist in Denmark (1992) and Spain (1994). All are small compared to the potential liabilities to be insured.

In Germany, the Environmental Liability Law which came into effect at the beginning of 1991 introduced strict liability for pollution and compulsory financial guarantees for a list of specified installations, but the regulation setting out the concrete financial requirements has yet to be issued.

The German liability insurers association, the HUK-Verband, issued a model wording with a "manifestation" wording: the policy pays when pollution manifests itself while it is in force. The German insurance industry has since been successful in making leading industrial companies take out special environmental impairment liability (EIL) insurance by excluding pollution from their general commercial liability policies.

No doubt partly influenced by this experience, at the 1995 Monte Carlo Reinsurance Rendezvous Wilhelm Zeller, then a board member of Cologne Re, suggested that "gradual" pollution should once again be accepted as a standard insurable risk, but on two conditions. Pollution should be excluded from the premises section of standard civil and commercial liability policies and incorporated instead into special EIL policies; and the cover should be on a claims-made basis with a set limit, be site specific, and exclude both past damage and pollution resulting from normal operations. Although much discussed, the practical response to this logical but radical idea has been limited.

A market-based approach similar to the German model has been tried in France, where in 1994 insurers restricted pollution cover in commercial liability policies to a very low level. At the same time, a carrot was offered by Assurpol in changing from a claims-made wording to one of "première constatation", which may be translated as first verifiable discovery and is similar to manifestation. (The same term has been adopted in Spain.)

Without a legal stick, however, most of industry refused to be driven into EIL policies. This may partly reflect the fact that claims-made wordings cannot be enforced in French courts. Similar court decisions have been made in Belgium and Spain, but these were anomalous, and the legal position has since been amended.

In the London market, there are doubts whether the gradual pollution-exclusion wordings standard in commercial liability policies at Lloyd's, or the 1991 Association of British Insurers (ABI) standard exclusion clause would perform as insurers intended if tested in court. One difficulty is that seepage exclusions apparently existed in the 1960s, but were dropped before gradual pollution exclusions began to be discussed.

Although US environmental liability insurance leaders AIG and ECS-Reliance both offer site-specific, claims-made cover for gradual pollution in the UK, uptake has been low. Specialists attribute this to the relatively low limits offered and high transaction costs involved, which make it too expensive for smaller companies and too restricted for large ones. Mr Zeller's proposal was partly intended to address such problems.

New difficulties are also appearing on the horizon. There is increasing concern over the pollution associated with large industrial fires, of which a recent example was dioxin contamination from burning PVC during the fire at Düsseldorf airport in April. In the Netherlands, concerned that debris removal clauses in fire policies could be exposed to soil and water clean-up costs, a property insurance association project group earlier this year proposed novel pollution policies which crossed the traditional boundaries between property and liability insurance.

Trevor Petch is consulting editor of the Financial Times newsletter World Insurance Report.

Eight ways an environmental claim might "begin"

1 An incident which may result in a future problem, e.g. corrosion of an underground storage tank;
2 The cause of a pollutant escaping, e.g. the rupture of the tank;
3 The escape of the pollutant into the environment, e.g. the leakage of fuel oil;
4 The (not often perceived) presence of the pollutant in the environment, e.g oil in the soil;
5 The changing situation of the pollution condition, e.g. the migration of fuel oil via ground water to adjacent land;
6 The occurrence of a legally relevant loss, e.g. damage to property on the adjacent land;
7 The manifestation of such loss, e.g. the damage associated with fuel contamination becoming noticeable;
8 A claim being made or a clean-up being mandated by the government.

Source: Pollution Liability Exposure: How to get off the "Sudden and Accidental" Timebomb? - Wilhelm Zeller

Global warming: by Leyla Boulton

Weather worries

Reinsurers are concerned that climate change may be causing extreme conditions

Two events over the past year suggest that the reinsurance industry is more worried than most other lines of business about global warming.

Thirteen reinsurance companies in Bermuda, home to 20 per cent of the $6bn catastrophe reinsurance market, last November set up a centre to study implications for the industry in the light of research on climate change. In July, a group of 60 big reinsurance and insurance companies represented in Geneva at the United Nations environment programme insurance industry initiative called for serious international action to tackle the problem.

Other industries, which could be affected by international action to limit global warming, doubt the threat is that serious. However, the reinsurance sector wants action to be taken on a "precautionary basis". This means taking measures to deal with a problem before it is fully proven because the potential consequences could be too grave to await definitive proof.

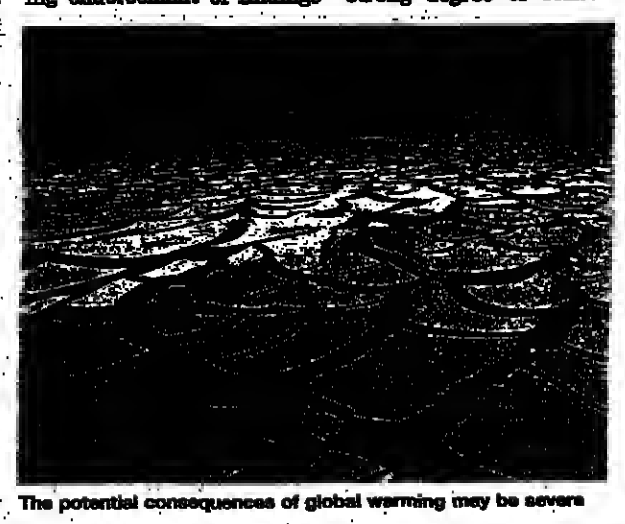
The sector's main fear is that climate change could cause extreme weather conditions which in recent years have resulted in increasingly large claims from property damage.

The United Nations Environment Programme (UNEP), which helped bring the companies together, believes that from 1987 to 1993, "16 $1bn plus catastrophes linked to the environment resulted in worldwide insured losses of over $50bn". The largest was Hurricane Andrew in December 1992, which cost $17bn in insurance claims.

Walter Jakobi, executive director for overseas business at Germany's Gerling Konzern Globale Re, notes that natural catastrophes – 70 per cent of which are weather-related – represented 2 per cent of world premium income in the 1990s compared to 0.5 per cent in the 1970s.

Industry executives concede that very little is known about the exact nature of the threat of global warming, such as what its *regional consequences* might be. "That is why it is not something that is affecting our prices," explained one executive at another reinsurance company.

But in applying the precautionary principle, the industry's position paper, presented to representatives in Geneva, called for "substantial reductions in greenhouse gas emissions". This was accompanied by a ringing endorsement of findings



The potential consequences of global warming may be severe

by the Inter-governmental Panel on Climate Change that the "balance of evidence" suggested a "discernible" human influence on climate.

"Man-made climate change will lead to shifts in atmospheric and oceanic circulation patterns," said the paper, which adopted a more positive line than the IPCC.

"This will probably increase the likelihood of extreme weather events in certain areas. Such effects carry the risk of dramatically increased property damage, with serious implications for property insurers and reinsurers."

Andrew Dlugolecki, who is assistant general manager for underwriting at General Accident and a member of the steering committee which co-ordinated the initiative on global warming, believes that losses generated by extreme weather may have helped speed up the consolidation of the reinsurance industry.

He also argues that the problem is potentially more serious for reinsurers than for insurers. "The most obvious reason is that reinsurers can be affected by anything that happens anywhere," he said, referring to the fact that they are bigger, and more internationally exposed. The way risks are distributed between insurers and reinsurers is also a factor.

However, while there is a strong degree of consensus within Europe and Japan over the problem, US reinsurers are still wary of joining a growing campaign by the industry to tackle climate change. US companies were not among the 60 backing the position paper presented this summer.

However, Frank Nutter, president of the Reinsurance Association of America, suggests this may be simply a matter of US companies being "lower down on the learning curve on this issue". He also notes that many of his members, already embroiled in expensive law suits over land contamination, are fearful of being held legally responsible for signing up to a pledge by the 60 companies to take environmental problems more seriously.

Bermuda: by Ralph Atkins

Revolution on the beach

More than $5bn has been invested in property catastrophe reinsurers

Since the 1960s, Bermuda has been an important centre for "captives"

Even beach life gets difficult after a while. In spite of the many advantages of a Bermuda base, the island's fast-growing reinsurance sector has not been exempt from the pressures that have affected the international industry.

Falling premium rates are increasing pressure to squeeze the best returns out of the Bermudian reinsurers' abundant capital, while the demand for financial security is putting a premium on size, as well as geographical and product diversification.

The result has been a series of moves intended by the largest Bermuda-based groups to ensure that they retain a competitive edge – and to build the island's rapid growth. Since the early 1990s, more than $5bn has been invested in the island's property catastrophe reinsurers, attracted by Bermuda's tax advantages, political stability and light-touch regulatory system.

John Kriz, insurance analyst at Moody's Investors Service, says: "In Bermuda, one of the great reinsurance success phenomena of the past decade, the watchword today seems to be, 'this island ain't big enough for all of us'."

There will not be "any shoot-out on Front Street", Mr Kriz believes, "but the *Bermudian property catastrophe reinsurers* are only a few years old and they are already undergoing restructuring."

The most dramatic move has been the island insurance industry's first hostile takeover bid. Ace, a diversified insurer specialising in "long tail" business (such as product liability and insuring company directors against damages in areas where claims can take years to feed through) earlier this year announced plans to acquire Tempest, a property catastrophe reinsurer. But it found itself competing with an offer from IPC, a rival reinsurer. Ace eventually won after raising its offer to more than $900m.

Of course, a large part of the wrangling was unrelated to strategic trends in reinsurance. American International Group, the New York-based insurer headed by Maurice "Hank" Greenberg, had equity stakes in both Tempest and IPC. And Mr Greenberg, who has a reputation in the insurance world for deal-making, is understood to have been unhappy with the original terms Tempest was given by Ace.

Some observers believe Mr Greenberg hoped the IPC approach would persuade Ace to improve its offer significantly – and it did.

But the Ace/Tempest deal highlighted the desire of Bermudian insurers to develop new lines of business – and to make more effective use *of their capital.*

Brian Duperreault, Ace chairman, says size was not the main motivation behind the deal but, he says, "why not take a strength of the organisation and play on it?"

Similar considerations explain the move on Lloyd's by Ace and several other Bermuda reinsurers which have bought stakes in the managing agencies that run syndicates at the London-based insurance market: Mid-Ocean in Brockbank; Terra Nova in Octavian, Trident Partnership in Venton; and Ace in Methuen. At the same time, Mid Ocean is also looking to expand into Asian markets and is expected soon to set up an office in Singapore.

Herbert Haag, chief executive of Partner Re, which, unlike its rivals, has deliberately stuck to being a specialist property catastrophe reinsurer, says: "Having achieved 'world-status', companies such as Ace have been forced to move away from their role as specialists in order to make use of their growing capital."

Such developments mark a further chapter in the relatively short history of Bermudian insurance.

Since the 1960s, the island has been an important centre for "captives" – insurance companies set up by ordinary companies or institutions to provide dedicated insurance cover for the risks associated with their business.

The mid-1980s saw the establishment of companies such as Ace specialising in North American liability insurance, offering protection, for example, against the risks associated with faulty products.

But in the early 1990s a series of natural catastrophes around the world led to the birth of the big, billion-dollar property catastrophe reinsurers. Like previous waves of development, the property catastrophe reinsurers sought to exploit a gap in international markets caused particularly by the difficulties at Lloyd's of London.

Figures published in March, after a re-registration of Bermuda-domiciled insurers showed for the first time a sectoral breakdown. Some 859 companies – representing more than 60 per cent of the register – had been licensed as "captive" insurers.

A further 254 international insurers fell into the category covering some low-risk reinsurers and conventional insurers while 15 received licences reserved for the heavily-capitalised property catastrophe reinsurers and "excess liability" insurers. A further 74 insurers wrote long-term, life assurance business or a mixture of life and general business.

Once gaps in the international insurance market had been filled, Bermuda's insurers faced the danger of being left with too much capital and too few opportunities in their specialist fields, hence the pressure to diversify or consolidate increased. Another symptom has been a number of share buy-back schemes.

Bermuda is also looking to retain its innovative edge in developing new products, many of which remain at the experimental stage. Here the possibilities of the "securitisation" of risk – by which capital markets are tapped for funds to cover the cost of large-scale catastrophes – could offer possibilities. The island has already developed products which bridge the gap between conventional reinsurance and highly-sophisticated financial products.

Evolution is important. "We saw that we didn't need to limit ourselves to a single line of business. In that sense the [Bermuda] market is nothing like mature. It hasn't reached its full potential," said Mr Duperreault.

Bermuda catastrophe reinsurers

Results for the first six months of 1996 ($m)

	Equity	Premiums	Net income
Partner Re	1,291.1	180.0	128.3
Mid Ocean Re	1,019.4	379.6*	108.8
Tempest Re	N/A	N/A	N/A
Renaissance Re	546.6	171.4	78.5
LaSalle Re	463.2	159.3	72.2
IPC Re	462.2	80.6	50.2
Global Capital Re	434.7	92.1	50.4
Cat Limited	N/A	N/A	N/A

* Includes $91m related to Brockbank Group

Source: Industry estimates

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■ **New products:** by Trevor Petch

Developing options

Losses from catastrophes, such as damage from earthquakes, can now be funded by reinsurance derivatives

Access to capital markets provides opportunities for catastrophe funding

Zurich Insurance Group has been an acknowledged leader in reinsurance innovation since it co-founded Centre Re in 1988.

Centre Re wrote what it called finite risk reinsurance, and what most of the rest of the market called "financial reinsurance". At a time when many insurers were reluctant to increase their own rates to alleviate the losses of their reinsurers, the mixed reinsurance and financial packages called "financial reinsurance" in effect offered reinsurers control over part of their clients' investment portfolios instead.

For some clients, on the other hand, one attraction was the ability to massage their capital and net asset position, frequently with off-balance-sheet transactions.

In Europe and the US, the authorities took a dim view of this "surplus relief", and new accounting standards removed mnch of the demand for the early prodncts. What was once seen as arcane has been developed by Zurich's reinsurance division into the cornerstone of its strategy.

The four main elements of its "Total Risk" approach – multi-year contracts with premiums which reflect loss experience, guaranteed reinsurance capacity and aggregate limits, a significant degree of profit sharing, and a willingness to consider types of cover not offered by traditional reinsurers – are straight out of the Centre Re manual. The penetration of the cutting edge into the mainstream was illustrated by last month's announcement by the UK's Independent Insurance Company of a five-year reinsurance contract with a panel of five reinsurers.

"The quality of our results has not been fully reflected in our reinsurance terms. This will give us much better continuity," says Peter Adlington, reinsurance manager of Independent Insurance Company. Innovation has meanwhile moved into the areas of reinsurance derivatives and securitisation, the packaging of insurance risk for direct placement on the capital market.

Reinsurance derivatives were pioneered by the Chicago Board of Trade (CBOT) in 1992. They are now based upon one national and eight regional daily loss indices produced by Property Claims Services. In simple terms, an insurer buys call options to cover a regional catastrophe loss which reaches a specified level, and sells put options for the level at which it wishes cover to cease.

The result is a layer of funding which is not unlike a layer of excess of loss reinsurance, except that it is based upon the average loss in the region rather than the actual losses incurred by the insurer's portfolio.

These "call spread options" are therefore a little reminiscent of another early 1990s hybrid, the "double trigger franchise cover". This provided the client with a layer of catastrophe reinsurance protection above a set level, but only paid up if the total market loss from the event was of a specified size. The idea was to protect the reinsurer against a client which had unwisely over-exposed itself to accumulation of losses in a specific region.

Refinement of the CBOT instruments since their introduction has improved turnover, but open interest has remained low. This partly reflects the fact that their use is permitted by a limited number of US insurance regulators as investment instruments only. Therefore they do not rednce statutory liabilities in ths way traditional reinsurance does.

A second approach to insurance derivatives is being developed by the New York Catastrophe Exchange (Catex). The aim is to create a real-time electronic market through which the money at risk from specific catastrophe exposures can be traded between participants, enabling risks to be diversified directly. A main target market is industrial corporations and the captive insurance companies they own for their own risk management needs.

These are also customers for Zurich's financial engineering packages, which blur the traditional distinction between insurance and reinsurance.

Facilitating transactions between the traditional reinsurance and derivative markets is the aim of Normandy Re, a "transformer vehicle" set up by Guy Carpenter & Co, the reinsurance broking arm of leading US broker Marsh & McLennan.

Capitalised at $3m, Normandy Re intends to provide reinsurance to its clients in a traditional form while offsetting these transactions with the purchase and/or sale of financial instruments such as catastrophe options on the CBOT.

This eases the main regulatory obstacle to wider participation by insurers. Normandy Re is part of Marsh & McLennan Risk Products, a new division formally established on July 1 with the aim of acting as a "portfolio manager" on behalf of capital committed from traditional reinsurance and capital markets. It plans to provide new and innovative property catastrophe capacity to its insurance and reinsurance company clients.

Capital market participants have been wary of the new instruments because they lack the ability to quantify, categorise and price catastrophe risks. This is the gap which MarshMac Risk Products aims to bridge.

"This area will grow, but the new products ws are dealing with will require educating buyers and sellers alike. That's part of the process," comments Brian Murphy, president of MarshMac Risk Products. A real prize is securitisation of insurance risk.

According to a recent study by Swiss Re sigma*, together with insurance derivatives, these offer the possibility of generating an additional US$30bn (£20bn) in funding for a large natural catastrophe in the US by the middle of the next decade.

This is the same figure which Swiss Re calculates represents the "capacity gap" between the catastrophs reinsurance protection of the US insurance industry of about US$20bn and the "reference loss" figure for a large California earthquake of US$40bn to US$50bn. The overall damage would be much higher than this.

Not only is the probable maximum insured loss from a worst case event more than US$100bn, bnt only about 20 per cent of any damage is estimated to be insured against earthquake.

The market capitalisation of the US insurance industry is in the region of $200bn, the US reinsurance industry representing about 10 per cent of that. While a worst-case California earthquake would therefore cost more than half the capital of the US insurance industry, the average daily fluctuation of the US financial markets is estimated by sigma at US$133bn, about 0.7 per cent of the total market.

Swiss Re Financial Products, a joint venture with Credit Suisse, is one company which plans to exploit this potential. The first real effort to do so was as part of the California Earthquake Authority (CEA).

Morgan Stanley was to handle the issue of US$3.5bn in 10-year earthquake risk bonds (ERBs), US$2bn of the proceeds of which would be invested in government bonds to guarantee repayment of the principal at par.

The remainder would provide funding of $1.5bn in excess of losses of $7bn, and pay interest twice-yearly unless an earthquake costing more than that amount occurred within four years, when payment would stop.

The CEA has not completed the approval process in the California legislature, so the bonds have yet to be issued. Also pending is placement of a catastrophe bond ultimately on behalf of leading US motor and household insurer USAA (through Merrill Lynch). This is also a "transformer" deal.

A specially constituted company, Residential Re, will provide a layer of reinsurance for USAA covering losses from a single hurricane of more than $1bn, matching it with an issue of one-year floating notes on which the future interest payments, and eventually the principal itself, will be lost if USAA makes a claim.

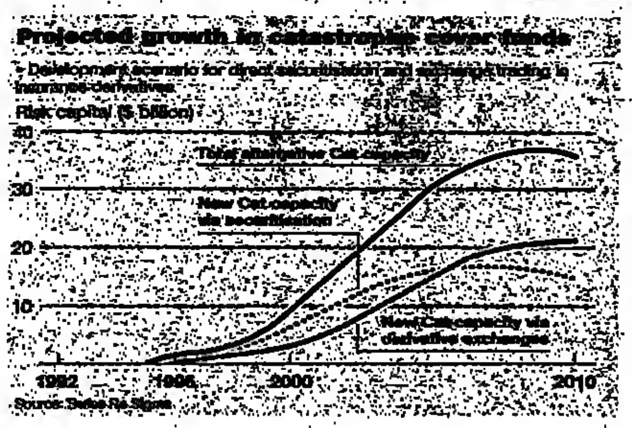
USAA lost $587m from Hurricane Andrew in 1992, the worst on record with a total insured loss of $16bn.

The issue offered for 1996-97 is very small – only $1m – but a much more substantial placement of up to $500m appears possible for 1997-98.

* *Insurance derivatives and securitisation: New hedging perspectives for the US catastrophe market, Swiss Re sigma No 5/1996.*

Projected growth in catastrophe cover funds

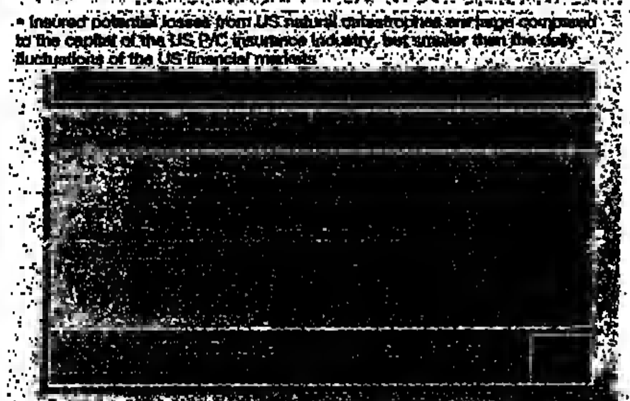
• Development scenario for direct securitisation and aggregate trading in insurance derivatives



Source: Swiss Re Sigma

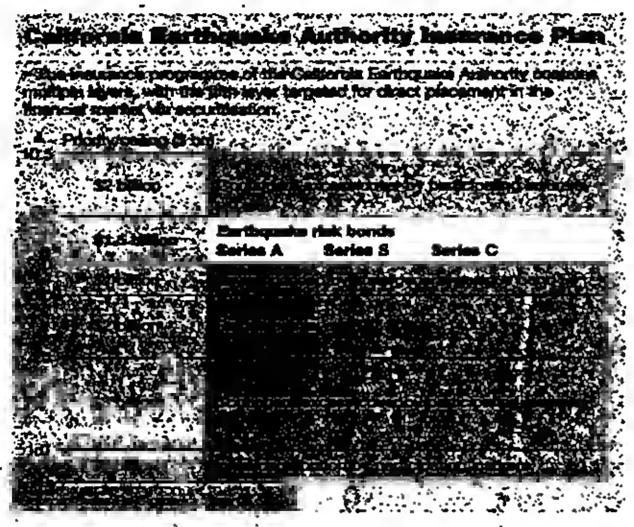
Funding US natural catastrophes

• Insured potential losses from US natural catastrophes are large compared to the capital of the US P/C insurance industry, but smaller than the daily fluctuations of the US financial markets



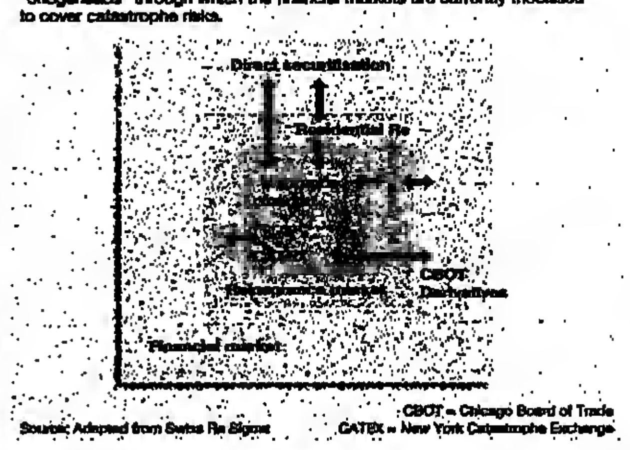
Source:

California Earthquake Authority Insurance Plan



CATEX realtime electronic market

• Private placements via securitisation and insurance derivatives form the "bridgeheads" through which the financial markets are currently mobilised to cover catastrophe risks.



Source: Adapted from Swiss Re Sigma

CBOT = Chicago Board of Trade
CATEX = New York Catastrophe Exchange

■ **Protection and Indemnity clubs:** by Adrian Leonard

Winds of change are blowing

Concern over unfunded liabilities may prompt changes in reinsurance

With several years of good loss records behind them, Protection and Indemnity clubs (P&I clubs) – the mutual insurers first established in the mid 19th century to provide reasonably priced insurance to ship owners – are looking for lower reinsurance premiums. Meanwhile, reinsurers outside Lloyd's, which has been the traditional centre of P&I reinsurance, are taking an increasing interest in the high premium, high risk business.

Sixteen clubs participate in a co-operative programme, the International Group Agreement, which shares claims greater than $5m (£3.2m) among all member clubs.

To protect against claims larger than $30m, the International Group buys reinsurance, but in recent weeks it has called for lower premiums on its sizeable reinsurance contract. The Group paid a gross premium of $80m for its current $1.5bn cover, which comes up for renewal on February 20, 1997.

"If we find the terms of the Group excess of loss contract unsatisfactory next year, we won't buy it," said Bryan Gaze, deputy chairman of the London P&I Club and a member of the Group's reinsurance committee.

Underwriters are not ready to offer a premium reduction of the order of one third, the amount suggested by Mr Gaze. The figure has been described as "unrealistic" and "ridiculous" by underwriters leading the contract. However, they are well aware that recently claims on the contract have been less than premiums.

"We have responded to the loss profile in each of the past two years," said Ian Agnew, underwriter of Lloyd's syndicate 672, which writes a "very substantial" line on the Group's reinsurance. "The clubs saw some handsome reductions in February 1996 and February 1995." The reduction for the current year was about 15 per cent.

However, Mr Agnew explained that reinsurers must charge an amount commensurate with the risk, which would create very substantial liabilities should a serious loss occur. "One major claim in a year would make a mockery of the premium, let alone two or three," he said.

Richard Yousll, underwriter of Lloyd's syndicate 79, which has led the Group's reinsurance contract since its inception, said "it is a long-term contract that does and has reacted to market forces", but is also potentially at risk from catastrophes.

Steven James, chairman of the International Group's reinsurance committee, is also interested in a lower premium, but has not taken as strong a stance as his colleagues. "We're always looking to get the best price, but I wouldn't want to see expectations rise prematurely," he said. "Let's see what losses occur."

While Mr James plays down the likelihood that the Group will take an extremely tough line on rate cuts, it has devised an alternative plan, should the traditional reinsurance prove too expensive. Using what have been dubbed "designated reserves", the Group may be able to provide a portion, or even all, of the protection itself.

"Designated reserves" refers to the letters of credit (LoCs) each club has provided to the Group. They guarantee each member's ability to pay their Group pool commitment should a large loss occur. The amount of the letters of credit is not equal to the full obligation of the clubs in such an event, but as the Group began to increase the amount of risk retained by the pool early this decade, it requested increasingly large LoCs.

Should reinsurance cover not be purchased, a possibility which Mr James said "is not entirely remote", the amount of the LoCs would have to be very substantial indeed. "Quid pro quo, the clubs would not have to pay reinsurance premiums."

In the event that the reinsurance is scaled back under the designated reserves scheme, at least the first $750m of cover would be retained, with a step beyond a certain level of loss. This kind of approach could be executed, Mr James said, without extra costs to the ship owners. "In the long run, owners could expect a saving."

The structure of the Group reinsurance is extremely complicated. For the current year, it is divided into three contracts which are placed seperately.

The first layer of protection, insured almost entirely at Lloyd's, provides $750m protection for non-oil pollution claims in excess of club and Group retention of $5m and $25m respectively. In addition, it simultaneously includes oil pollution cover capped at $500m. Both can be collected for a single incident.

The second layer covers $350m for single-incidant non-oil pollution losses from $780m to $1.13bn. Less than half of this cover is placed at Lloyd's, with most of the balance placed with US reinsurers.

The final layer provides an additional $400m of protection, and differs from the first and second because it provides protection for aggregate claims, rather than an unlimited number of single incident losses. It is entirely placed with three Bermudian companies.

If a catastrophic marine loss should occur which exceeds the $1.53bn total reinsurance protection, liability returns to the clubs. At present, the Group has limited to 20 per cent its responsibility for such an "overspill", although the level of limitation is a subject of great debate in the P&I community.

In addition to the $30m dednctible, ths Gronp retains 15 per cent "vertical co-insurance" of all losses within the first $750m layer, raised from 10 per cent in 1995. Thus, if a claim of say $780m were to fall, clubs and the group would pay the first $30m, and 15 per cent – $112.5m – of the next $750m.

Individual clubs representing about 75 per cent of the Group's tonnage – 10 in total – have purchased a reinsurance package for the top part of this extra 15 per cent risk, led by Swiss Re. The protection provides excess of loss cover for each club's share – in practice about 1 per cent – of losses in the first layer greater than $500m. It will provide up to $250m for one such claim, and up to $500m for two or more claims.

Other clubs have chosen an alternative which offers protection against their shares of a single loss exceeding $500m within the 15 per cent co-insurance band. The cover is led by Lloyd's syndicates.

In its annual report, the Standard P&I Clnb states that its purchase of reinsurance for the vertical co-insurance was in part "to establish an alternetivs basis of purchasing reinsurance, which may prove beneficial in future years". Increasingly, clubs are looking outside Lloyd's for reinsurance cover.

One club has reinsured the top $3m of its $5m club retention in a contract led by Munich Re and supported by Swiss Re and General Re. Such companies are increasingly interested in P&I.

Munich Re, for example, which participated in the Group contract in the 1960s and 1970s but pulled out for "technical reasons", is reported by one club to be slowly investigating the P&I business. The company, with the same supporters, reinsures the P&I's vertical co-insurance as well, but only for claims by the individual club's members. At present Munich Re is not prepared to risk insuring unknown vessels and owners.

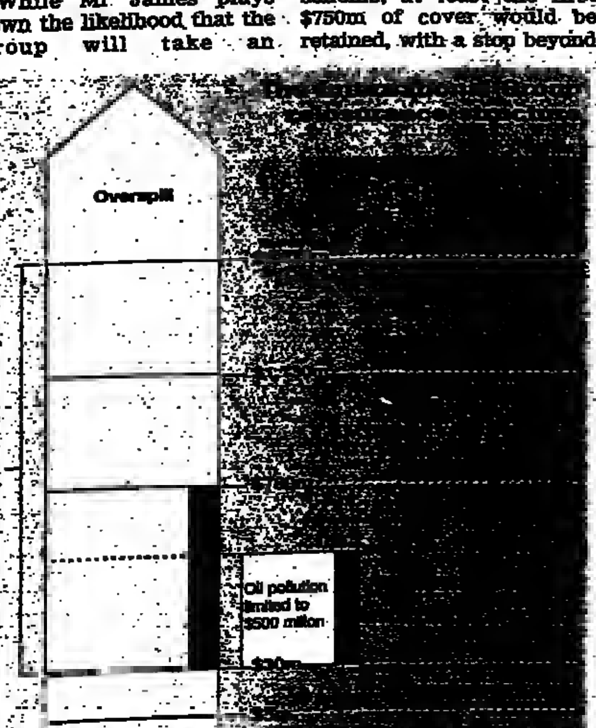
Bermudian and US reinsurers are also playing close attention, but a leading Lloyd's underwriter has shrugged off their involvement. "I don't think they're interested in P&I, they're interested in large premiums," be said. "We see it as risk transfer at Lloyd's, not ss a pure banking operation."

"I don't discount competition," another contract leader said. "No Lloyd's underwriter should be under the misguided opinion that we bave some sort of God-given right to the business – clubs could find some substantial alternative market."

However, both pointed out that Lloyd's has reinsured P&I clubs in good times and bad. "In the years when capacity was scarce – and they coincided with a deteriorating loss record – it was Lloyd's and conventional contract underwriters who remained with us," said Mr James. "That's how we want to continue."

Adrian Leonard is a writer for the Financial Times newsletter World Insurance Report.

Liabilities from oil pollution are a particular problem to ship owners



■ **Risk of terrorism:** by Elizabeth Brown

Competition increases

Pool Re has received £370m claims after the Manchester bombing


The Manchester bombing on June 15, 1996, has resulted in claims totalling £370m

Growing awareness of the risk of terrorism has sparked renewed interest and increased competition in the UK insurance market in the wake of the Manchester and London docklands bombings this year.

The Manchester city centre bombing on June 15 left 200 injured, and resulted in extensive damage to commercial properties. Pool Re, the UK reinsurer of terrorism risks, has received an estimated £370m of claims from the incident so far.

The knowledge that regional centres outside London could be subject to terrorist attacks has triggered increased interest in the purchase of terrorism cover in recent months.

As one London broker says: "There has been a massive increase in interest from people who have been uninsured before and also those who realised you don't have to be situated in London to be exposed. If Manchester had not happened we would have had a little more interest. Manchester has underlined that you are not OK out of London any more."

Pool Re, the government-backed department of trade and industry (DTI)-approved reinsurance mutual has been in place since January 1, 1993. It was set up following the St Mary Axe bomb in 1992, when many reinsurers withdrew from providing cover against losses due to acts of terrorism on the UK mainland.

Just four months later, in April 1993, the Bishopsgate bomb blast led to insured losses of £650m, of which Pool Re covered about half.

For an additional premium, the mutual provides cover for commercial and industrial risks on the UK mainland against losses due to acts of terrorism, over the £100,000 per policy category limit which has existed on UK commercial property insurance policies since January 1, 1993.

Only the day before the Manchester bombing, Pool Re said claims arising from the London docklands South Quay explosion on February 9 had reached £100m.

As a result, it withdrew the deposit premium arrangement with policy-holders, which meant they would have to pay the remaining 40 per cent of their annual premiums. At the same time, Pool Re announced withdrawal of its 20 per cent discount to policy-holders, which had been introduced at the beginning of 1996 following the IRA ceasefire.

Introduction of these premium arrangements had been made so insureds could benefit from the favourable claims experience which Pool Re had in 1995. Under the system, policy-holders were required to pay 60 per cent of their premiums at renewal with the balance of 40 per cent required if total losses exceeded £75m in 1996.

Competition between Pool Re and alternative providers of terrorism cover has intensified in the wake of the Manchester bomb.

According to several London brokers, this increased interest has been triggered both by the Manchester bomb and Pool Re's decision to withdraw its deposit premium arrangement with policy-holders and its 20 per cent discount just the day before.

"Since the announcement that Pool Re is charging 100 per cent premiums and then the Manchester bomb, there has been a heightened awareness of the risk which has led people to explore alternative means," said one leading broker.

There are several alternative schemes to Pool Re which offer terrorism cover in the UK.

Both the British Insurance and Investment Brokers' Association (Biiba) and London-based broker Minet have facilities on offer which are placed in Lloyd's. They provide capacity of £100m and £123m respectively.

In addition, Minet is able to offer top-up cover which can increase capacity to in excess of £200m.

According to those in the market, there are eeveral advantages of going outside Pool Re to purchase terrorism cover.

"Terrorism cover in the open market provides an alternative to Pool Re in thet clients can choose to be more selective in their cover. It enables people to be flexible and selective over locations and deductibles," said one broker.

However, Leslie Lucas, chairman of Pool Re, believes any increased competition in the terrorism market in the wake of the Manchester bombing can only be a healthy sign.

"The company was never set up as a monopoly. Therefore there was always the potential that alternative capacity would be made available," he said.

He explained it was difficult to pinpoint exactly what was triggering the increased demand.

"What nobody can tell is whether it is insurance purchased for the first time, or whether there has been some movement out of Pool Re to the alternate markets," he said.

Meanwhile, the close succession of the London docklands South Quay and Manchester bombings in 1996, is leading to growing speculation thet Pool Re's rates may be set to increase further. Several market sources have indicated that another terrorist incident, in the wake of the Manchester bombing, would almost certainly prompt a change in underwriting rules later in the year.

"If there was another bomb, I would think Pool Re will definitely up the rates," one source said.

However, Mr Lucas maintains it is unlikely Pool Re's 100 per cent rates will move any further upwards in 1996.

"The effects of withdrawing the deposit premium is to put the premiums back to 1994 levels," he said.

In the financial year 1994, Pool Re reported gross premiums written of £346m, compared with £196m for the financial year 1995. The reduction was due partly to the fact that premiums in 1995 were paid on the 60 per cent basis.

At December 31, 1995, Pool Re had paid out claims from commencement of £227m, while outstanding claims totalled £62m.

■ **Sport:** by Elizabeth Brown

Players raise the stakes

The insurance market is having to keep pace with the rising values of sports people

The start of the football season saw the transfer of top England striker Alan Shearer to premier league club Newcastle United for a record fee of £15m.

Mr Shearer's move highlighted the increasing values which individual players are now able to attract, due not least to the many sponsorship deals and bonus schemes in operation. It also pointed to the additional levels of protection which insurers and reinsurers will need to provide to keep pace with the modern world of professional sport.

As Jonathan Ticehurst, head of sports at London-based broker Windsor Insurance, says: "We will see the same situation arising over the next few years for other footballers who have a high value.

"The insurance market will have to be prepared to provide the insurance protection that the clubs want."

In a market which is fairly small and specialised, each premier league football club has a different insurance buying philosophy. While some are more risk averse, others can afford to take greater levels of self-insurance.

"The football insurance market is not like a supermarket, you cannot go in and take it off the shelf. Like a bespoke tailor, you have got to make sure you have got the right thing and that it fits," says Mr Ticehurst.

But as the trend of high player values continues and many sports make the transition from amateur to professional status, the question of whether there is enough capacity available in the market to meet the demand for cover remains a matter of debate.

According to Mr Ticehurst, for a premier league football club such as Newcastle United, there is certainly enough capacity in the market to provide the amount of insurance required.

"The capacity is there, but our job as brokers is to ensure that those that do write it continue to write it and though the numbers are getting bigger we have to persuade them to write more.

"We also have to search the world for other insurers, hitherto without the appetite for writing the risk, to see if they can be persuaded to enter the market," he said.

The football insurance market is understood to have made a minimal profit over the past five years, taking into account all aspects of British football. But a career-ending injury to a high-value football player is just one example of an incident which could leave insurers and reinsurers exposed to significant claims. It would also put pressure on insurers to increase rates.

"There is no doubt if there were to be a career-ending injury with one of the high-value players, premiums would go up. It would not necessarily scare people away from football insurance but it might cause them to re-examine the premium rate," Mr Ticehurst said.

According to the Association of British Insurers (ABI), an estimated 20m new sports injuries occur each year, causing around 11m lost working days. Fatal sports accidents resulted in 148 deaths in the UK in 1992. The sport with the highest number of fatalities was motor sports, which left 16 dead.

Indeed, the death of racing driver Ayrton Senna at the San Marino Grand Prix in 1994, was the highest insurance claim for a sportsman in recent years. Lloyd's underwriters faced a claim of around £11m, arising from a policy which covered the racing driver against death and injury.

The stabbing of leading ladies' tennis player, Monica Seles, at a tournament in Hamburg in 1993, was also reported to have triggered insurance claims of around $10m.

More recently, the bombing at the Olympics in Atlanta which left two dead and 110 injured, showed that the risks faced by professional sports men and women are on the increase - both on and off the field. More stringent security measures, including electronic fences, infra-red cameras and metal detectors, will be in place when Sydney hosts the Olympics in the year 2000.

Meanwhile, many in the market agree that risk management across all sports will have to be stepped up if the rising costs are to be contained. There is also a growing possibility that sports insurers and reinsurers may decide to impose restricted terms to take account of the higher levels of risk.

The tendency of international football and rugby teams to travel together when on tour, is just one example of a potential catastrophic claim.

As Mr Ticehurst says: "When you have got these international teams all flying in the same airline, they are carrying some very high values. That is an enormous accumulation of risk on one airline."


The £15m transfer of footballer Alan Shearer highlighted the protection insurers need to keep pace with professional sport

Colmore Row, the traditional heart of Birmingham's business and financial centre Picture: News Team

■ Financial services • By Richard Wolffe

Competition intensifies

Merchant banks feel the pressure as accountants, lawyers and stockbrokers act as financial advisers

On the face of it, Singer & Friedlander's decision to quit Birmingham at the start of the year seemed like a body blow to the region's financial services. One of the oldest merchant banks in Birmingham, Singers declared that the city was no longer profitable enough to justify its own operations.

In reality, Singer's move underlined not the weakness of the Birmingham market but the intense competition in a rapidly expanding marketplace. Birmingham's merchant banks have been squeezed out by its accountants, solicitors and stockbrokers, which are increasingly crossing over the traditional boundarias of financial services.

David Maxwell, chief executive of Birmingham City 2000, which represents the city's financial and professional community, says: "There is a question mark over *why* we do not seem to do well with merchant banking in the city. But in fact merchant banks have gone back to London to deal with the more complex deals because those in the accountancy profession have undermined them et tha smaller end of tha market. They have simply made it difficult for the traditional merchant banks to compete."

Birmingham'a accountants hava meanwhile concentrated on tha smaller and medium-sized businesses – with a market capitalisation of between £5m and £50m – which are less attractive to their banking rivals. Larger clients still rely on City of London banks, and seem happy to travel to London to meet their advisers.

The result has been a cross-over of staff – and clients – from banking to the accountancy offices, as the market in financial services evolves in tha West Midlands. Where accountants traditionally only worked on due diligence projects, they are increasingly acting as financial advisers on the structure of acquisitions and flotations.

Charles Cettaneo, previously at BZW bank and now corporate finance director at KPMG accountants, says: "We aim to win clients who are not particularly lucrative for the banks because they do not do an ewful lot of business. We also have a different way of doing things in that we try to be closer to our clients than the banks are.

"We give *ad hoc* advice, which our clients appreciate, in the same capacity as a non-executive director. It is lika being an additional board member."

However, the real driving force behind this evolution has been the sheer volume of deals in the corporate finance market. According to tha Centre for Management Buy-out Research at Nottingham University, the value of deals in the West Midlands rose by 81 per cent last year to £607m, with management buy-ins leading the charge.

Part of this increase comes from the trends in manufacturing, where businesses are shedding non-core subsidiaries, and tha market in acquisitions and management buy-outs has taken off.

Bnt the growth also reflects the increasing level of power within the regions, as corporate financiers have been given the financial muscle to cope with even the largest deals. At the same time, the city's larger solicitors have increasingly specialised in corporate finance work, alongside the accountants.

Roman McAlindon, regional managing partner of Arthur Andersen eccoontants – which has a strategic link with Garrett & Co, solicitors – says: "In the past, if the deals were big they were sent down to London, but now the financial services sector is so strong here that we can handle them all from Birmingham.

"This is how it should be, because the people involved are local and they want to have their advisers close to them."

The contrast with retail financial services in the West Midlands could hardly be more stark, however.

Among some of the region's best-known names, the climate of cost-cutting has led to substantial job losses. TSB has announced plans to close down its large administrative office in the centre of Birmingham, which employs 1,000 staff, following its merger with Lloyds Bank. Meanwhile, Britannic Assurance – one of the region's few life assurers – is also cutting its 2,100-strong sales force in lina with many of its rivals.

One of the few silver linings for retail financial services is the growth in "call centres" – the telepbone-based operations of banks and insurance companies. Barclays' Covantry-based call centre, for instance, is recruiting around 200 staff to join its existing workforce of around 500.

Gary Hoffman, managing director of Barclaycall, the bank's telephone operations, observes: "We looked at the local labour market and it was the quality of the peopla that attracted us here. Our main constraint now is actually recruiting enough people. Getting 25 people in each month to the right quality is the thing that is difficult."

Birmingham's International Convention Centre

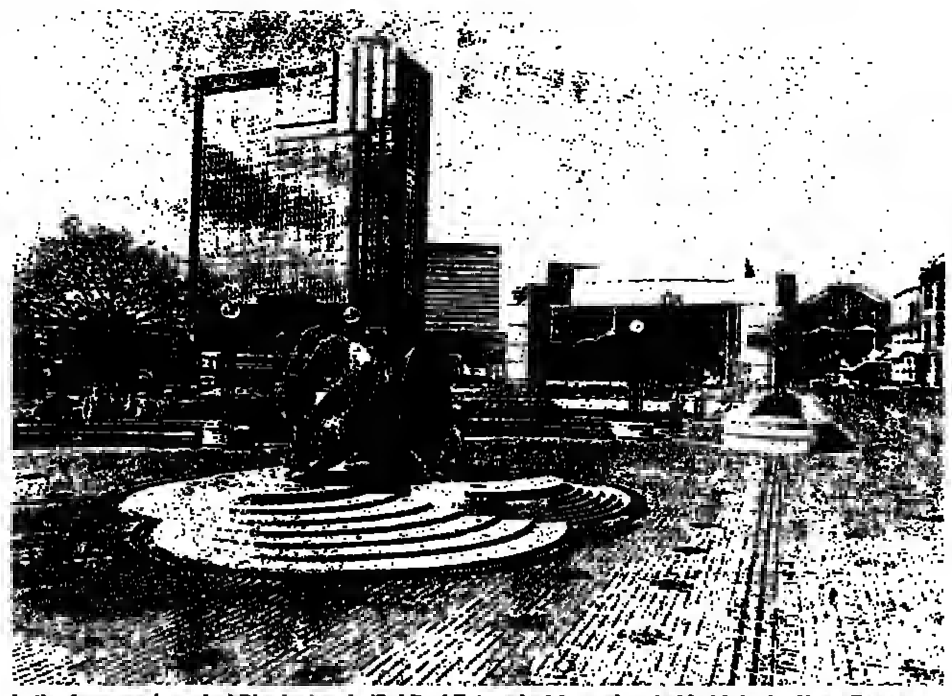
■ Inward investment • By Richard Wolffe

Seeking to break the mould

Peddimore, a greenfield site, north of Birmingham, aims to attract large projects

It may look like ordinary farmland at the moment, sandwiched betwean Birmingham and the prosperous suburb of Sutton Coldfield. But the 56-hectare site represents more than just a few green fields to either its neighbours or the business community in the West Midlands.

According to local councils and inward investment specialists, the fields near Peddimore are the region's best hope of winning a flagship foreign investment. In fact, such is the region's determination to win the investmant, that Birmingham council has already granted planning approval for a micro-electronics factory on the site. A public inquiry in December will decide its ultimate fate. The council's decision was remarkable not just because of the strong political opposition it faces on environmental grounds. It was remarkabla because no investor has yet committed itself to the area.



In the forground, central Birmingham's 'Spirit of Enterprise' fountain – behind it is the Hyatt Regency Hotel, directly linked to the International Convention Centre, and Centenary Square

Birmingham's determination comes from a sense of lost opportunity. When Siemens was deciding where to locate a new £1.1bn ($1.7bn) semiconductor plant in the UK last year, it was close to choosing the West Midlands. But the lack of a suitable site – particularly a large greenfield site – meant the region lost out to North Tyneside.

Philips, the Dutch electronics group, is one of half a dozen companies now considering Peddimore, which could create an estimated 3,000 jobs. But it is not just the employment issue which has fired tha imagination of Midlands businessmen and political leaders alike.

Although highly industrialised, the region knows it is too heavily reliant on older businesses – especially those associated with metals and the motor industry. Inward investment represents the West Midlands' best chance to break the mould with new companies.

Tony Bradley, policy director at Birmingham chamber of commerce, says: "We must attract a major single user of the size of Siemens, because of the trickle-down factor. These 'footloose' international companies attract suppliers who are also quality-driven and that gives the region that little bit of impetus to bring our skills levels up."

Some businessmen blame the lack of high-technology companies, including those in the biotechnology sector, for the low productivity in the region. Others point to tha high-tech nature of today's automotive industry to argue that the region is already well-placed to serve an electronics investor.

The West Midlands is, in fact, a successful competitor in the race for inward investment, even without the addition of e semiconductor plant. Last year the region attracted 76 investment projects worth £840m, ($1.3bn). Backed by a three-year award of £303m ($469.6m) from the European Regional Development Fund, the West Midlands consistently wins a fifth of all new foreign investment into the UK.

However, Paul Richards, chief executive of the West Midlands Development Agency (WMDA), said: "We are the most successful region in England in terms of the number of projects we win – but they tend to be relatively small, with on average 80 jobs per project.

"The really big projects traditionally go to Wales, Scotland, Ireland or the North East. But we would argue that we have s much more diverse economy, with e better manufacturing base, first-rate professional services and excellent universities."

The region is not just bampered by its simple lack of space, however. The drive to win inward investors has also been frustrated by a lack of cash. WMDA, which leads the region's quest for such projects, has an annual bndget of around £1.1m – around 30 per cent lower than equivalent organisations around the country.

It is a problem shared with the Regional Supply Office (RSO), which aims to source suppliers within the West Midlands – serving both inward investors and UK companies. Tim Roberts, director of the West Midlands RSO – which works from the same office as WMDA – says: "In the North East they spend more than £1.5m on RSO activities and in the North West they spend £1.1m, mostly because they were there before the arrival of such organisations as Business Links."

With a budget of around £400,000, the RSO won £1.53m of business for local suppliers in its first financial year in 1995, and around £6m in just the first quarter of this year. But the work of both the RSO and WMDA will be severely restricted until the region concentrates its efforts – and casb – more efficiently. Even witb e greenfield site available, the region could again lose to its rival regions.

"We beve to work very bard to try to get overseas companies into the region," said Peul Richards. "With our limited resources, we just do not have the time to pull everyone together."

■ **Urban regeneration** • By William Lewis

Heartlands being revitalised

While many sites have been redeveloped, there is still much to do

For Mr Don Scriven, chief executive of the Business Link organisation in Sandwell, hot weather is bad news. The smell from the canal which runs past his office is sncb that be is unable to open the window.

Housed in the same building as Mr Scriven are the offices of the Black Country Development Corporation, which in 1987 was charged with developing and revitalising 26 square kilometers of derelict and under-used land in the West Midlands region, including the offending stretch of canal.

In Marcb 1998, BCDC, along with other urban development corporations and City Challenge organisations, will close down. While BCDC's work has resulted in a considerable improvement in the local environment – more than £400m of public money will bave been invested in the area by the time BCDC closes – the smell from the canal is picked on by some as evidence that there is still much development work left to be done in the West Midlands.

The question of what happens when the development corporations and City Challenges – set up to rejuvenate areas of high unemployment and neglect – close in just over a year and a half is one that is also occupying several other regions. However, in Birmingham and West Midlands the issue's importance has been magnified partly because of the success they have bad in attracting grants from the government and European Union, as well as private sector investment.

A recent report by the Confederation of British Industry highlights the continuing need for urban regeneration in the region. It states that growth prospects "for older industrial centres in the region – including the *Black Country, Birmingham* and Stoke-on-Trent – remain more constrained because of a lack of high quality sites".

Mr Jim Beeston, chief executive of the Birmingham Heartlands Development Corporation, says that over the last six years his organisation has pulled in more than £60m, including £40m from government and £14m from the EU.

As a result, BHDC has achieved e "dramatic change" in the Heartlands area, he says – "new investment bas been attracted, jobs are being created and new housing is being developed".

BHDC's accounts for 1995-96 show that it spent £6.4m on land acquisition, £1m on land reclamation, £1.6m on roads, £460,000 on environmental improvements, £260,000 on community support and £900,000 on supporting the private sector.

The Heartlands area has 24 per cent of Birmingham's industrial land available for development, even though it covers just 3.6 per cent of the total land area. Mr Beeston says thet BHDC participated in the package of incentives which persuaded Ford to invest £300m into a new production facility for the new Jaguar X200 car. Ford's investment will create 1,200 jobs for Heartlands residents.

He also highlights Bordesley village centre, "the centrepiece of Britain's first new urban village". The village centre comprises 29 flats, four shops, plus dental and doctors' surgeries and a community centre. The £2.9m scheme has been granted £300,000 by BHDC, and Mr Beeston says that the centre is the culmination of investments in Bordesley totalling £65m, including £40m private sector investment. Construction of the Heartlands Spine Road, a 9.58 km dual carriageway, is at an advanced stage and is due for completion next year. But it is the future, *rather than past successes*, which is occupying Mr Beeston. BHDC is in discussions with the city council and English Partnerships, the government urban regeneration agency, to "develop a successor body". Mr Beeston says that options inclnde turning the BHDC into "some sort of trust, friendly society or joint company". He intends to commission consultants to advise on the handover process.

"Our work is probably about 80 per cent done," he adds. "There are a number of sites that need to be redeveloped".

At Walsall City Challenge, Ms Sarah Middleton is examining ways in which staff can be incentivised to stay on until it winds up in March 1998. Development corporations and city challenges have been expressing concern that they are likely to lose key staff in their last year.

Ms Middleton says: "It's a difficult time. There may be the issue of some sort of loyalty bonus, a cash incentive". However, "when 'push comes to shove' they [City Challenge staff] want long-term security".

Nevertheless, Ms Middleton remains confident that Walsall City Challenge will successfully complete its objectives as set ont in a five-year plan. These goals inclnde attracting £125m of private sector investment, 1,657 residents trained who obtain jobs, the building of nearly 700 new homes and the improvement of another 1,000 existing homes.

Over five years, the combined public and private sector investment in the area will have totalled more than £200m.

Another issue is who will take on the liabilities currently held by development corporations and city challenges. Mr Mike Appleton, development director of English Partnerships, says that it will take on "strategic issues, but not every residual issue or long-term liabilities".

He says that local authorities or trusts should take on that responsibility – "in terms of existing assets, maintenance and management, there needs to be home-work done in the last year of each urban developement corporation".

Meanwhile, for the region's business people, the departure of the urban regeneration corporations and city challenges may actually be a blessing. Over half of the businesses that participated in a recent CBI survey said that there were too many organisations with briefs to help support regional competitiveness.

Only 36 per cent said that the number of support organisations was "about right". Urban development corporations ranked third last, behind chambers of commerce, Tecs, local authorities, central government and the CBI itself, in a tabls showing the level of contact between business and support organisations.

Merry Hill Centre, Dudley – the UK's second largest shopping complex. The Black Country is developing fast, say local businessmen

Picture: Hose Team

■ **The workforce** • By William Lewis

Concern over skills base

Business leaders call for big improvements in training and education

The reputation of the West Midlands workforce is the stuff of legends. Tourist guidebooks tell how their extraordinary capacity for work helped fire the great industrial revolution.

When high productivity equated with brute strength and graft, rather than technical expertise, there were few areas more productive than the West Midlands. Birmingham became known as 'the city of a thousand trades'.

Although the coal-seams and ironworks are long gone, the West Midlands' labour force has become a victim of its own historical success. The region's continued reliance on traditional metal-based industries appears to have depressed the standard of skills among its own workforce.

For the West Midlands economy, this skills shortage threatens to undermine its ability to compete in global markets and expand into value added high-tech industries.

A recent study by the Confederation of British Industry shows that employers are not getting what they want from the education and training system in the West Midlands.

The study concludes that the changes in industrial working practices have not been matched by improvements in the skills base of the West Midlands labour market.

"At certain skill-levels, the West Midlands appears to perform below the UK average," the CBI concludes. Mr Jeremy Woolridge, the CBI's West Midlands regional chairman, added that "concerted and effective action is needed" in the "*development* of enhanced skills and training, which is a weak spot for the region".

The West Midlands businesses surveyed by the CBI voted the level of skilled labour at school-leaver and technician levels as one of the worst in England, and said it was one of the area's biggest weaknesses.

The quality of education and training provision in the region was also heavily criticised and ranked eighth out of ten regions in the England and Wales.

The CBI report, *Meeting the Challenge – the Business Agenda for the West Midlands"*, surveyed a wide range of companies across different industrial sectors and company size. It states: "Education and training was ranked by survey respondents as the top priority for future action with action needed both among young people undertaking "foundation" learning, and among those both inside and outside the workplace."

While recognising the role played by individual companies in developing the skills base of the West Midlands, the report concluded that the plethora of official agencies and public organisations in the region should "agree an agenda for future action, *based on raising the skill* base in the West Midlands".

One bright spot is the graduate market, with companies believing that the West Midlands graduate pool is one of the best in the UK. In an attempt to overcome the overall weakness of the labour market, the CBI report makes several recommendations and sets a number of goals. They include:

● All children in the West Midlands should be competent in all core skills by the time they leave compulsory schooling. "Young people should leave foundation learning with a portfolio of national qualifications showing breadth and depth of learning," it says.

● Links between education and business need to be improved, "to ensure that learners develop the knowledge, skills and attitudes to meet labour market needs".

The report states that one company told CBI researchers that "there is a lot happening which seems good on the surface, but the impact *is very limited*".

● The region needs to make a "concerted effort" to "facilitate a learning culture within the West Midlands".

● The skills levels at small and medium sized companies need to be improved. A large number fail "to be involved, or are insufficiently involved, in training activity". Training and Enterprice Councils fa the region need to tailor their approach more to the needs of these companies. Mr Brian Potter, acting chief executive of Sandwell Chamber of Commerce, highlights management skills as a key development area. "The lack of business skills is one of the brakes holding us back," he says.

"No one has thought of showing these people [managers] what to do. When I ask managers in this area, 'Why do you do it like that?', they say 'It's because we always have done'."

Mr Potter says he is *in* discussions with Sandwell Tec "to see if we can get something off the ground". However, for Sandwell Tec and others in the region, one of the key issues is how they can encourage companies to more accurately predict their staffing requirements. They argue that the CBI's criticism of training schemes *being ill-suited to the needs* of business is partly misplaced. Companies themselves can be blamed for failing to accurately communicate their training and staff needs.

Mr Kim Norman, business development services director at Sandwell Tec, says one of his organisation's most important tasks is persuading companies to try to accurately predict their staffing requiremens over the next five years – "we spend a lot of time on research, trying to hone down our provision to what is required."

One way forward can be found in the relationships which have developed in the West Midlands between universities and companies. In recent years, universities have become far more aggressive in developing their commercial activities, and businesses have become more attuned to the potential benefits that can arise from close links with academic institutions.

One of the best examples *is the link between Rover* and Warwick University's Manufacturing group. Rover managers regularly attend university courses and there has been co-operation on improving manufacturing techniques. There is also a growing effort at other universities in the region – Aston, Birmigham, Central England, Coventry, Keele, Staffordshire and Wolverhampton – to become more involved with companies.

For Mr Don Richardson and Mr Roy Richardson, the twin brother property entrepreneurs, the key challenge for the region is how it encourages young people to become entrepreneurs. Roy says that the education system should enable young people "to be able to become entrepreneurs and business people in their own right".

The twins say they are prepared to put up £1m to help encourage entrepreneurs in the region – "we would like to see more entrepreneurs come forward," Roy says. "Without risk-takers, the country will slide".

The Forward Statue in Birmingham – once known as the city of a thousand trades, but changes in industrial working practices have not been matched by improvements in the skills base

مكبرا من الاصل

THIS WEEK

Belgians on the rack of conscience

Do not blame the perpetrators of evil. Blame those who look away and thereby allow evil to occur – Albert Einstein.

DATELINE

Belgium: child murder charges have fuelled anger and disillusionment with the establishment, writes **Lionel Barber**

Today, this sombre epitaph for the horrific kidnapping and murder of eight-year-olds Julie Lejeune and Mélissa Russo appears on posters, placards and pavements throughout Belgium.

For two years, similar posters have alerted the public to the disappearance of Julie and Melissa. Now, the long summer holiday is over, and *la grande rentrée* has brought with it not the straightforward story of two missing children but the brutal news of a kidnapping by a multiple rapist who allowed his victims to die a slow death of starvation in his cellar, and then buried them deep in cement in his own backyard.

The grisly charges against Marc Dutroux have fuelled an outpouring of national grief which has turned to anger and disillusion with Belgium's political and judicial establishment.

As so often in Belgium, where public confidence in institutions is shaky, suspicions are rife that Dutroux and his paedophile ring enjoyed protection in high places.

Many questions are unanswered. How could a felon like Dutroux own 10 properties and obtain loans from a bank? What exactly is the role of the detective inspector charged in the case? And what about the red motorbike found in the grounds of a Dutroux property, a motorbike which resembles the long-sought getaway vehicle used in the 1991 assassination of the Wallonian political boss André Cools?

Charges of a cover-up have become common because of the indifference shown by the authorities toward the fate of Julie and Melissa. The two eight-year-olds went missing in June 1995. Their parents launched a nationwide appeal with more than 10,000 posters at airports, motorway bridges and rail stations at home and abroad. Everyone knew Julie and Melissa. But the police insisted that the search was futile; the children were dead.

In fact, the two girls were alive. They were being held in isolation in one of Dutroux's safe houses, just 80km from their homes. Dutroux was only apprehended last month after someone spotted his white van in suspicious circumstances and passed on the licence number to police. Nine people, including Dutroux's wife, Michele, and a high-ranking detective have since been arrested.

Why was Dutroux set free on probation after serving only a fraction of his original 14-year sentence, despite pleadings from his mother and strong objections from the local prosecutor's office?

More intriguing, when he was arrested while on probation last year, why was he still allowed to walk free? And what was the purpose of his frequent journeys to the Czech Republic and Slovakia?

The assumption in the Belgian press is that Dutroux was at the centre of a paedophile ring supplying clients with expensive child porn videos. But last week, police diggers found the bodies of two other missing children – An Marchal and Eefje Lambreks – buried under a shed in one of Dutroux's properties. An and Eefje were 17 and 19 when he kidnapped them as they waited for a tram in Ostend, a year ago.

The age difference between the victims suggests that Dutroux and his wife were not just paedophiles, but were involved in a more general business of trafficking in female bodies.

The suspicion is that this sex trade is controlled by organised crime operating across national borders. The connection between Belgium and central Europe supports this theory, as does the evidence of co-ordinated car theft to cover the trail of abductors and victims.

Whatever the truth, the Dutroux murders pose a fearsome challenge to Belgium's criminal justice system which suffers from a lack of funds, poor organisation and political influence through the appointment of judges.

The most telling fact to emerge is that Dutroux and his wife were drawing BFr70,000 (£1,458) a month in unemployment and sickness benefit while carrying out their horrific crimes: a little less than the average monthly wage of an investigating magistrate.

Despite the sense of shock in Belgium, ordinary citizens have drawn comfort from the conduct of the parents of the victims. They have behaved with extraordinary dignity and restraint, pointedly refusing to sign the flood of petitions in favour of reinstatement of the death penalty. At the funeral of Julie and Melissa, both francophones, the mourners broke into spontaneous applause at the appearance of the parents of An and Eefje, both Flemish speakers.

Such expressions of solidarity have restored a semblance of unity to a country where divisions over language and culture are as strong as ever. Recognising the national mood, King Albert II and Queen Paola finally agreed to meet the parents last week and pledged to support a full investigation of the Dutroux case.

The selfless conduct of the parents of the victims, and their quiet but insistent criticism of a system which failed their children and the rest of the country, has jolted the politicians.

Too often, Belgians pride themselves on their pragmatism and ability to strike a deal to overcome the linguistic divide. The fate of Julie and Melissa shows that society cannot live by compromise alone.

The Monday Profile: Leonard Lauder, Estée Lauder

Dynasty scents the future

Some children of corporate dynasties are loath to join the companies their parents founded, but not Leonard Lauder.

"I couldn't wait," drawls the 63-year-old chairman of Estée Lauder, which was founded in 1946 by his parents, Estée and Joseph, and is now one of the world's largest cosmetics companies. "And I love it."

Although he joined the family firm as a graduate in 1958, Leonard only reached the top last September when his octogenarian mother took the title of founding chairman and he became chairman at 62. The promotion made little difference in practical terms – behind the scenes, Leonard had run the company for years – but Estée Lauder *looks* very different.

Since Leonard became chairman, it has made its first acquisitions by buying the Bobbi Brown and MAC beauty brands, and has also gone public by floating on the New York Stock Exchange.

So far, the results of this activity have been pretty successful: Bobbi Brown and MAC have thrived and the shares have soared, raising the company's market capitalisation from $3bn (£1.9bn) to $5bn. Yet in an ideal world, Leonard Lauder would have preferred not to have gone public.

Estée Lauder had long prided itself on being among the most private of privately owned companies and on growing organically by creating new beauty brands such as Clinique, Aramis, Origins and Prescriptives.

These launches required long-term investment that Leonard fears will be out of bounds now the company is publicly quoted.

"Reinventing ourselves with new brands was something I loved doing and it strengthened the company," he says. "Outside investors may be less patient with such large investments, knowing they won't see a return for five years."

Yet he had no choice but to go public because, as he tactfully put it, "some members of the family had greater need of liquidity than others". In other words, all the Lauders had hefty taxes to pay after Joseph's death. For example, one family member, Ronald Lauder, was heavily in debt, having spent tens of millions of dollars on art and eastern European investments.

A flotation also made long-term sense as Leonard Lauder was anxious to avert the problems once faced by Campbell, the US food company which fell prey to family feuds when the shares were split between various heirs over the generations. "I don't want anyone to think that if their name is Lauder they've got to work for the company," says Leonard. "If they'd rather sell their stock, that's their business."

However, having forfeited his old flexibility to create new brands by going public, Lauder has had to find other ways to expand. One solution is licensing, starting with a deal to produce perfumes for Tommy Hilfiger, the US fashion designer whose sportswear is the unofficial uniform of rap stars. Tommy for man and Tommy Girl for women are already best-sellers in the US, and Tommy was launched in the UK last week, even though the Hilfiger brand is virtually unknown in Europe.

"Do I have misgivings? Yes," says Leonard. "But we're a worldwide company and if I'd waited until Tommy was a household name [for fashion] in Europe, we'd have been launching Tommy 1 there when Tommy 4 was on sale in the US."

Meanwhile, the group is pressing ahead with other means of expansion: notably, a joint venture with Herbert Frommen, the German cosmetics executive, which Lauder likens to link-ups between Hollywood film studios and independent producers. He also has ambitious plans for MAC and Bobbi Brown, both of which were founded by professional make-up artists and achieved cult followings but lacked the means to expand internationally until Estée Lauder's arrival.

However, the flagship Estée Lauder brand provided a significant chunk of the company's $160m net earnings and $3.2bn sales in the year to June 30. Last autumn Leonard Lauder relaunched it with a new "face": Elizabeth Hurley, the actress whose modelling career got off to a shaky start after the Los Angeles police swooped on her boyfriend, Hugh Grant, and a Sunset Strip prostitute. Estée Lauder stood by her and, according to Leonard Lauder, she has since "done great things for us".

For the future he envisages more acquisitions, finding new joint venture partners and clinching other licensing contracts, although Lauder declines to comment on speculation that he is about to announce a perfume deal with Prada, the Italian fashion label.

"We need new brands, that's the way forward," he says. "We're in a situation where one of our biggest problems is maintaining the balance of power with our retail partners, particularly in the US. I can do it, but only as long as I've got something new that they want."

Alice Rawsthorn

FT GUIDE TO

Newspapers

Newspapers are finished, aren't they? Surely it's only a matter of time before they succumb to the threats posed by everything from 300 channels of television and hundreds of radio stations to the Internet?

Hardly. What is remarkable about newspapers in the UK is just how resilient papers have been when judged against the size of the extra competition they have faced. In the UK national dailies still sold more than 14m a day in the six months to July, a rise of more than 150,000 on the same period in 1995. The national Sunday newspapers, in spite of sharper declines, still sell an average of 15.4m copies – although the slide continues, particularly at the popular end of the market.

But what about the US? That's where all of the online interactivity is gathering pace and surely everything crosses the Atlantic in the end, doesn't it?

Things are not nearly that gloomy even there. Veronis Suhler, the investment bank specialising in the media, notes that between 1990 and 1995 daily newspapers in the US suffered a circulation drop of 0.9 per cent. Although virtually every significant title is online this development is still more about promotion than directly boosting revenue. Veronis Suhler forecasts that total spending on newspapers in the US will grow from $50.4bn in 1995 to $65.8bn (£42bn) in 2000 – not bad for an industry supposed to be in terminal decline.

Some titles at least must be on their last legs? How about the Sunday Express and even the Daily Express for starters?

Once the skids are under a paper it is notoriously difficult to turn it around. Sacking the editor every nine months rarely works as a strategy. Still, Lord Beaverbrook's rightwing, rather jingoistic crusader may well be on the way back with the help of Lord Hollick, the Labour peer and the new chief executive of United News and Media. Lord Hollick's main strategy, announced last week, is to run the Daily Express and Sunday Express as a full seven-day operation under a single editor, Richard Addis, and plough the savings back into the papers.

But didn't seven-day operations fail at both The Daily Telegraph and The Independent?

The problem there, say Lord Hollick's men, was incomplete implementation. Whingeing journalists were listened to and separate editors were allowed to survive to fight for resources. At the Express there will be no fudging: this really will be a seven-day crew. After all, that's how the Washington Post is produced.

The Express plan is really only an elaborate cover for cost cutting?

Certainly journalists wonder how editorial quality can be enhanced by getting rid of 85 journalists out of 480, but then they would say that, wouldn't they? It is noticeable, however, that Lord Rothermere, proprietor of the Daily Mail and the Mail on Sunday, which have been wiping the floor with the Express titles, is not, as far as anyone knows, planning to move to a seven-day operation or sack 85 journalists.

Which national newspapers are the most obvious winners at the moment?

The papers that either have a clear niche purpose – such as the FT – or a well-defined and loyal readership – such as The Guardian – seem to be in the best position. The Independent can scarcely manage to get above 280,000 yet The Guardian is still selling close to 400,000 despite standing aloof from the price wars.

Are the price wars over now?

Rupert Murdoch is determined to keep The Times at a price advantage to The Daily Telegraph for as long as it takes. Watch for the end of the 10p Monday Times any day now, but the battle continues, albeit at a lower intensity. Below the parapet, more effort is going into promotion, building up databases on potential readers and tying readers into a title by offering highly discounted long-term subscription deals.

That's all very well but are you really saying ink on dead trees – and very expensive dead trees at that – can survive in the face of the all-conquering Web site?

The problem is still related to charging. Of course people are prepared to have a look at "free" information on the Internet. However, as soon as you start charging by the page the interest drops rapidly. More than 300,000 people are registered for the Electronic Telegraph – and 80,000 have registered since April for the electronic version of the FT – but it is still difficult to smell any money in spite of the appearance of a few advertisements.

Electronic publishing looks like a good way of extending the franchise and the brand internationally. It can also be used to tout for new subscribers to the real thing and to introduce the handy, flexible, portable newspaper to a new generation.

You haven't mentioned the regional papers?

Life here is undoubtedly tough but those who have realised they have a strong local franchise and continued to invest in quality editorial are holding on best. The departure of most of the large media groups from the market – here again Lord Rothermere's Northcliffe group is the canny exception – and the sale of titles to groups specialising in regional newspaper management are part of a wholly beneficial trend.

Robert Chote · Economics Notebook

Ballot box intensifies fiscal risks

Why politicians should be trusted with budgetary policy is unclear

The notion that politicians should not be trusted with the setting of interest rates has become received wisdom in the international economic establishment. Independent central banks are supposed to do the job instead. But if politicians cannot be trusted with monetary policy, why should they be trusted with budgetary policy either?

Manipulating fiscal policy is certainly tempting for a vote-grubbing government. Financing tax cuts or spending projects by increasing government borrowing in effect transfers income from future generations to the present. For those voters who are short-termist or less than wholly altruistic when it comes to the fate of their descendants, this is an attractive trade-off.

Another reason to be worried is that the damage inflicted by irresponsible fiscal policy is more difficult to undo than the consequences of reckless monetary policy. An interest rate cut is easier to reverse than a budget enshrined in legislation.

In Britain, the evidence suggests that the political timetable is indeed an important influence on fiscal policy. The government's budget deficit rose in each of the election years of 1983, 1987 and 1992, excluding any change arising automatically from the state of the economy. Looking at the number of times that policy has been loosened and tightened since the Tories came to power, the odds against loosenings having taken place by chance in each of those years are as high as 7-1.

The voters were also handed unusually large tax cuts in each of those election years. The average reduction was worth half of one per cent of national income, twice the average for non-election years since the early 1980s.

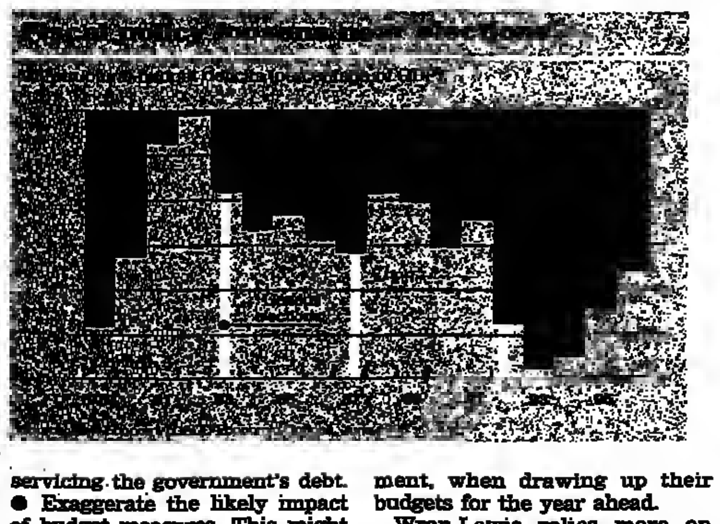
This has led to calls for curbs on the political manipulation of the budget process. In the latest New Economy, Simon Wren-Lewis, of Exeter University, proposes an independent body to provide the Treasury and the public with long-term assessments of trends in the economy and the government's finances.

In similar vein, a recent working paper by Alberto Alesina and Roberto Perotti at the International Monetary Fund calls for the creation of "an independent agency which supervises the accuracy and transparency of the budget, based on a set of reasonably defined rules". This reflects their belief that the complexity of modern budgets militates against their transparency.

"This complexity, partly unavoidable, partly artificially created, helps in various practices that 'hide' the real balance (current and future) of costs and benefits for the taxpayers," they argue. "Politicians have an incentive to 'hide' taxes, overemphasise the benefits of spending, and hide government liabilities, equivalent to future taxes."

There are a number of "tricks" which finance ministers use:

- Overstate the expected growth of the economy, thereby over-estimating projected tax revenues and under-estimating social security spending. Massaging interest rate forecasts lower also reduces the projected cost of servicing the government's debt.
- Exaggerate the likely impact of budget measures. This might include over-estimating the potential revenue from a new tax, the likely gains from a "crackdown" on tax avoidance, or the impact of tax reforms in improving work incentives.
- Keep some spending off-budget by channelling it through public sector organisations outside the main budget.
- Make strategic use of multi-year budgeting, announcing fiscal packages in which all the tough policies come in later years. These can then be postponed in later budgets.



Alesina and Perotti address some of these problems by arguing that finance ministries should be forced to use the economic forecasts of international organisations, such as the IMF or the Organisation for Economic Co-operation and Development, when drawing up their budgets for the year ahead.

Wren-Lewis relies more on moral persuasion. He does not believe that Treasury ministers in the UK should be forced to accept the projections of his "Economic forecast and assessment office", but argues that they would be suspected of manipulation if they did not.

There is no doubt that politicians do use fiscal policy in ways that are hard to justify economically, and that they often use sleight of hand to do so. But establishing an official scrutineer may not be the answer.

One problem is that any given set of assumptions about growth, inflation and interest rates can be used – quite plausibly – to justify a wide range of outcomes for the public finances.

Discretionary public spending may be relatively straightforward to forecast, but tax revenue is not. And because government borrowing is the difference between these two very large numbers, the average errors in even the pre-manipulated, internal forecasts made by finance ministries are quite enormous.

Government spending and tax revenues are also rare among economic indicators in that the finance ministry actually possesses extra information which makes it better placed to forecast them than outside observers.

Since it would be difficult for the scrutineer to be given access to this information, it is hard to see why the job should not be done just as effectively in the UK – given adequate funding – by existing bodies such as the National Institute for Economic and Social Research or the London Business School, which stand at a greater distance from government. And for as long as the Bank of England lacks independence to set interest rates itself, the same could be said of its role as scrutineer of the government's anti-inflation policy.

Rather than have a watchdog which is compromised by its government-sanctioned monopoly status, why not spread financial support between a number of competing watchdogs and let the market decide which to trust?

At the end of the day, it may be true that politicians play fast and loose with both monetary and budgetary policy. But while the motives of independent central banks and budgetary watchdogs may be less suspect, they are not infallible. Quite rightly, voters will ultimately still hold the politicians to account.

MANAGEMENT

Vanessa Houlder tiptoes her way through the delicate task of managing creative people

How to get ideas to hatch

Creativity and innovation have become the mantras of modern management. As competition intensifies, companies are exhorting their employees to come up with original ideas.

Even in disciplines that have always stressed the importance of creativity, such as the performing arts and scientific research, there are relentless demands to achieve more with limited resources.

But companies are often ill-prepared to deal with creative employees. "Creative people are often regarded as difficult or impossible to manage," says John Whatmore of Roffey Park, the Sussex-based management institute.

Whatmore has spent two years studying the management of creative groups and his work suggests that managers of such groups have a daunting task. Creative types are felt to be sensitive, temperamental, arrogant and selfish. They may not fit well into organisations in terms of dress, time-keeping and discipline. Their objectives may not necessarily coincide with those of the organisation, since their interests tend to lie with their own work and talents.

Moreover, they may have an ambivalent attitude towards managers. Whatmore notes a perception, at least among scientists, that management was in some sense "dishonest" since practitioners had given up their profession for their organisation.

Yet some managers have a special talent for getting the best out of creative people. "If we understood more about that talent, we might be better able to select and develop managers for all organisations where innovation is becoming increasingly important," he says.

His project was supported by the Department of Trade and Industry and a consortium that included the Wellcome Foundation, KPMG Peat Marwick, Zeneca, BBC Radio, IDV UK, British Telecommunications, the National Health Service (NHS), academia, the British Olympic Association and the Guildhall School of Music and Drama.

Some of these organisations would not be considered to be creative. But John Whatmore found them particularly interesting because the less creative parts of the organisations – such as the audit teams in the accountancy firm – provided a useful benchmark.

The creative teams he studied, such as KPMG consultants who used psychodrama and NHS physiotherapists, stood out from the rest of their organisations. "They felt they were doing jobs which were quite alien, even threatening to the rest of the organisation," he says.

That underlined one of the most important characteristics for managers of creative staff: the ability to shield members of their team who feel insecure and exposed. "Frequently they are very sensitive, especially because their skills and talents are the very essence of their lives," says Whatmore.

This ability to cope with pressures from the rest of the organisation is particularly important now that companies need results faster than ever. Salvador Moncada, former director of research at the Wellcome Foundation Laboratories and director of London's Institute for Strategic Medical Research, believes that the need for managers to "understand the nature of research" is becoming more crucial at a time when the competitive pressures on pharmaceutical companies makes it harder to take a long-term view.

One of the most important characteristics for managers of creative staff is the ability to shield team members who feel insecure

It is unsurprising that the most successful team leaders involved in the project bad outstanding "people skills". They were empathetic, understanding, warm, approachable, passionate, enthusiastic and generous.

Tbe successful managers tended to take a lot of trouble over the selection of their teams. They looked for team members who were open and trusting, who got to know each other very quickly and well. They spent a lot of time finding opportunities for the team to get to know each other, particularly over meals.

They tended to give their staff a great deal of freedom. "I never felt I had a manager, we just exchanged opinions," said one individual.

But constraints – the most difficult deadlines, the tightest briefs, the meanest bndgets – were also important. "Creative projects seem not to founder on constraints as much as succeed because of them, and this may be because they are seen as challenges," comments Whatmore.

Tension was described as useful by some groups but not all. One team leader commented that "people aren't cussed but they need to have a tension; otherwise life becomes comfortable and easy". Another thought that "people work better if you take the pressure off them".

In one group, conflicts within the group helped to inspire ideas. But too much tension could be disastrous in others. In several groups, which were "surprisingly unsuccessful", the tensions were all of a negative kind.

Personality clashes were just one of a litany of failings that characterised unsuccessful groups. Some problems could be blamed on the organisation. For instance, companies that were very hierarchical or bureaucratic had a culture that was not conducive to risk and experimentation.

The companies that were not successful were those that did not take account of the self-motivation of creative people, those where the layout of offices did not invite interaction, those which lacked an atmosphere of mutual understanding and trust and those where managers did not have the right attitudes of encouragement and support.

The style of leader was also important. Of the two projects deemed markedly unsuccessful, one of the leaders was autocratic and the other manipulative. Ineffective managers also spent too little time with their team members or demonstrated too little interest in them. There was often little discussion between the group and a feeling that the group was not a team.

In some respects, the shortcomings of these managers are unsurprising. The perception in many organisations is that people are appointed to head up groups because they are the best in the field, rather than because they have the qualities necessary to make them good leaders.

The study did uncover managers who viewed their management duties as a distraction from their real work. One of the academics interviewed was obsessed by the difficulty of managing his department and carrying on his research.

Nonetheless, the research found that the leaders of the most successful groups were invariably technical experts in the field. "Our work has suggested that they are likely to need to be among the best in their field if they are to have some of the attributes necessary for them to be successful leaders of a creative group," says Whatmore.

The successful managers had benefited rarely from training, even though the transition from expert to manager often requires the acquisition of a new range of skills, such as appraising performance and dealing with people.

Part of the reason for this was a feeling that courses are not adapted correctly for people who lead creative groups. The managers interviewed by Whatmore felt that they did not learn from studying with people with whom they had little in common.

In Whatmore's options, the skills required to manage creative groups are different from those required to lead other types of group. They are more to do with developing individuals and their talents, and creating or sustaining culture and climate than with achieving specific objectives.

Another reason for the managers' indifference towards training was that managers were highly self-motivated people, who felt they ought to be able to develop management skills by themselves.

Most of the effective leaders Whatmore talked to drew their ideas about management from their personal experiences. They had learned their skills as leaders from their own bosses, and particularly from bad bosses. Their goal was simply to manage others in the way they would like to have been managed themselves.

PARTNERS

Personal Number Company

Fiona Lafferty

Why tie yourself in knots over badges?

Lucy Kellaway

Guinness Is Good For You and Pal Prolongs Active Life are the sort of claims that no advertiser would attempt to make these days. Yet the BSI had no such qualms when it said in recent press ads that the quality standard ISO 9000 "improves productivity ... almost always gives an immediate result in terms of efficiency ... pays for itself ... staff morale is better ..."

Last week the Advertising Standards Anthority ruled that these were indeed extravagant claims, and asked BSI to tone it down in future ads to say that ISO 9000 "*could* improve productivity".

The inclusion of one word in an advertisement for such an arcane product might seem a matter of minority interest, not to put too fine a point on it. But the selling of quality standards on these lavisb promises may turn out to be one of the greatest scams of contemporary corporate life. In the UK the marketing drive has been a dizzy success: 52,000 British companies have the ISO 9000 badge, compared with just 43,000 in the rest of the world.

Why is it that we have gone so barmy about badges? ISO 9000 is by no means the only one; companies are also falling over each other to get the dinky little symbol of Investors in People to put on their corporate stationary.

This sort of thing is fine if you are a Scout and the badge in question is proficiency in tying knots. But knots and quality management are not the same. There are prescribed ways of tying particular sorts of knots (and I wish I knew what they were, as thers are times when my standard granny knot does not suffice). But there are lots of different ways of becoming a quality organisation and each way is different for different organisations at different times. Just because you have put a lot of effort into following a set of elaborate procedures (many of which in themselves may be more than sensible), and then have been inspected by teams of petty bureaucrats, does not mean that your organisation is necessarily better than the next one. Indeed the very idea of a badge runs counter to the idea of the modern flexible company full of knowledge workers who bring their brains to work every day. Wouldn't they do better to aim at the real goal – making profits – directly, and skip the intermediate ones?

It could be argued that a badge gives outsiders the assurance that they are dealing with a bona fide organisation. Equally the Investors in People badge may be said to be a sign to job applicants that the company is a good place to work.

But surely there are (especially in the case of larger organisations) better ways of finding out whether the company is duff or not. How much money is it making? What is its reputation like? Is the receptionist civil? Do the employees seem happy?

While the endorsement value of a badge may be greater to smaller companies, the cost to them of going through the hoops to get it may be prohibitive.

BSI, which makes a lot of money out of selling the badge, would seem from the advertisement to be promoting it not as a seal of approval, but as a panacea. I had thought that there was no such thing as a management panacea. But 52,000 companies can't be wrong. Or can they?

Quote of the month: "My company won't revolve around the birth of a child and I don't think that is unreasonable. It wasn't an emergency. This was rontine. Someone's having a baby. My wife has had a baby – they are popping out all over the place."

Michael Johnson's unreconstructed macho remarks to an industrial tribunal last week were the sort of thing that bad fiction is made of. It is hard to believe that a boss in the mid-1990s could be so unreasonable, or that he could talk in euch clichés. "And don't bother to come back!" he said to Robert Stennings, an employee of 10 years' standing who had just announced that he was off to witness the birth of his child.

Johnson is correct in saying that babies are popping out all over the place. It is a fact of life, and most companies (even small ones like his) have come to terms with it. Paternity leave for all may still be some way off, but leave to attend a birth seems a pretty basic human requirement.

Yet evidently the industrial tribunal did not see it in quite such black and white terms. It said that while Johnson had acted unfairly, Stennings should not have announced that he was taking the day off but should have said please.

This is ludicrous. Had he asked he would have been turned down: in any case it is depressing that a tribunal thinks we still have to beg for something which is our due in the first place.

BUSINESS EDUCATION

A good meal and a stylish suite are now the stuff of executive education courses, says Della Bradshaw

Creature comforts

While many an earnest business school applicant might look at the quality of the academic staff and research publications to determine a prospective alma mater, others may be more inclined to consider the selection in the mini-bar and the size of the swimming pool.

With European business schools earning an increasing amount of their income from shorter courses – and from increasingly senior executives – they are waking up to the fact, long acknowledged by their US counterparts, that a Spartan university cubicle no longer fits the bill.

To compete they have to offer the same standard of accommodation as a top-class hotel and they are spending megabucks on suites, saunas and satellite television to make the grade.

The most recent convert in the UK has been Cranfield School of Management, which opened a spanking new £6m executive centre in the spring. Cranfield is pushing the high-tech image of its 186-room centre, with modem and electricity points where executives can plug in their portable PCs.

Cranfield, near Milton Keynes, also figures big in the sports stakes, with a leisure facility filled with exercise equipment, squash courts and swimming pool.

The facilities are used by executive MBA (master of business administration) students as well as those on short courses, running from a single day to several weeks, says Lyn Ball, client service manager at Cranfield.

At Henley Management College, less than 100 miles up the road, a different attitude prevails. It has only just capitulated on the "issue of TV", as a spokesperson there put it, and put a television in every bedroom. Previously the attitude prevailed that the student – however senior an executive he or she might be – was there to study, not to watch the box.

Henley, too, has just extended its accommodation and can now house 120 students at a time. It has taken the somewhat risqué step of building double study bedrooms so that delegates can bring their partners with them, especially if they are staying over a weekend.

Other business schools push more traditional values. Ashridge Management College, also in the UK, likes to point out that its mansion house, set in a 150-acre Hertfordshire country estate, has, at various times over the past 700 years, been home to Benedictine monks, the English parliament and the present Queen Elizabeth (Princess Elizabeth, as she was at the time).

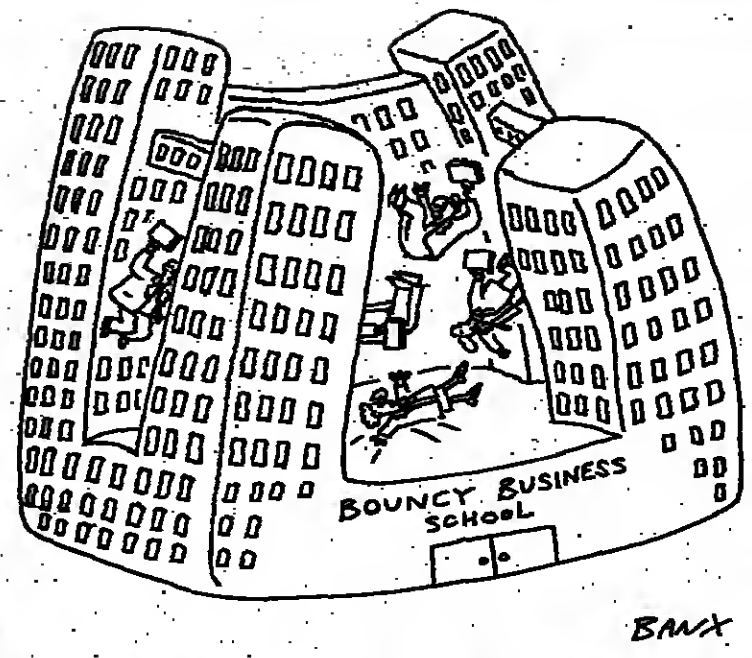
London Business School likes to gloat over its central London location, promoting theatre trips and top international restaurants alongside its single study bedrooms. It may not rank among the best when it comes to sporting facilities but the reception desk does issue students with maps for those who are game for an early morning jog around Regent's Park.

Henley, Cranfield and LBS run their executive centres themselves. Not so Insead, in Fontainebleau, near Paris. There administrators decided several years ago that the school was in the business of management training, not catering and hotel keeping, and handed over the running of the school's accommodation to the big French hotel group Accor, which also runs the Mercure hotel adjacent to the school. Insead is now building new leisure facilities so that it can continue to compete internationally with the best executive centres.

At Lancaster, in the UK, management also acknowledged that their strengths were not in hotel management and called in English Lakes Hotels, a local hotel group, to help run the hotel on the Lancaster University site.

But the school with the real eye for the main chance is Liverpool Business School, which has unashamedly decided to plump for the hedonist. Its three-year executive MBA course is held over nine weekends a year at a country house hotel with culinary, leisure and conference facilities to match.

With the cost of most executive courses including the cost of accommodation and meals in the package, the choice for most executives is that fine balance between academic standing, cost and creature comforts.



Drawing away the tensions

Change creates resentment, says Della Bradshaw

Does the thought of change in your organisation make you feel so angry that you want to take a bulldozer and smash down the walls – metaphorically speaking of course? Or does it all make you feel as if you are about to be swamped by an enormous tidal wave?

At Bristol Business School one academic is getting middle managers to draw their feelings on paper and then getting their bosses to confront the issues posed.

Mike Broussine, principal lecturer in management development, unashamedly admits that his techniques draw more on art therapy than on statistical analysis. But, he argues, change within organisations causes extraordinary personal emotion and fashionable techniques have concentrated on the structure – the tasks – of change rather than the accompanying feelings.

> ... fashionable techniques have concentrated on the structure of change ...

In the course of getting his students to visualise their feelings he has come across some extraordinary pictures – gravestones, menacing storms or a picture of Sisyphus pushing a large boulder up a steep hill.

Broussine categorises each of the drawings as revealing a particular feeling – fear, personal catastrophe, anger or cynicism, for example.

The ongoing four-year study at Bristol has been conducted with managers from the public sector, notably local authorities and health authorities. Middle managers express their feelings pictorially and then are brought together with their bosses to interpret the drawings together.

"It's not me that does the interpretation," says Broussine. "Managers do that. They say the unsaid." Fortunately no angry manager has yet "done the undone" and bulldozed the building as a result of the course.

CONFERENCES & EXHIBITIONS

CONFERENCES

OCTOBER 21-22
Utility Week - IT in Utilities Congress
Hamburg Congress Centrum
The IT in Utilities '96 Congress and Exhibition is the second forum of its kind for senior managers in the electricity, gas, telecoms and water industries to meet and discuss effective IT strategies for European utilities. A comprehensive programme of conference presentations and specialised workshops will be augmented by an exhibition.
Conference enquiries: Alex Daniel, 1st Conferences 0171 404 7722
Exhibition enquiries: Roth Eppey, Utility Week: 0181 652 3877
LONDON

OCTOBER 22 & 23
Second Annual Russian Capital Markets & Investor Conference
An international conference looking at the post-election political and economic outlook for Russia. Topics to include: primary & secondary debt & equity markets, private equity investment, fund management, direct investment and project finance and a series of workshops with company & project presentations.
Contact: Arellle Savona, Dow Jones Telerate Tel: +44 (0) 171 832 9737
Fax: +44 (0) 171 832 9940
MOSCOW

OCTOBER 22—23
Business Performance Measurement
A two day conference addressing the key issues in the implementation of business performance frameworks including practical lessons in the Balanced Scoreboard. Process Benchmarking and Quality approaches.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

OCTOBER 23
Building the Corporate Data Warehouse
The Data Warehouse is the first architected solution to long standing information management problems. This Butler Group Senior Management Workshop will explain the what, the why and the how of Data Warehouse design and implementation and provide a strategy for implementation within the enterprise.
Contact: Butler Group
tel: 01482 586377 fax: 01482 586378
http://www.butlergroup.co.uk
LONDON

OCTOBER 24
Corporate Internet Strategies
Few companies really understand the ultimate impact of the Internet on their business and industry, however, most now realise they can not afford to ignore this on-line-revolution. The opportunities provided by the Internet in terms of communication, information and as a strategic tool for the core business are enormous. This Workshop will prove to be invaluable to both business and IT management who need to understand the full benefits of Internet developments.
Contact: Butler Group
tel: 01482 586377 fax: 01482 586378
http://www.butlergroup.co.uk
LONDON

OCTOBER 30-31
Business Process Re-engineering
This conference and exhibition will redefine the role of management in the process based organisation, manage the portfolio of performance improvement techniques unlock the transformation potential of I.T., mobilise employees to achieve radical cultural change and tap the innovative power of people.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
LONDON

NOVEMBER 4
IBC's 12th Annual Company Report Conference
The world of financial reporting is always in a state of continuous flux. Join the 150-200 other participants at this established annual event and get updated on recent developments and get ready for likely changes for the next reporting season.
November 11, Edinburgh
Ring Athina Bradley at IBC on 0171 637 4383
LONDON

NOVEMBER 11
Better Out Than In?
The limits of OUTSOURCING
This essential one day conference will reveal the facts of Outsourcing and review the options. Key speakers from Government, Industry and the Legislature will address vital issues surrounding IT Security, Legal Pitfalls and Managing both the Contract and Organisational Change.
Contact: Computer Security Research Centre, London School of Economics
Tel: 0171 955 6153 Fax: 0171 955 7385
WESTMINSTER LONDON

NOVEMBER 18-19
The 13th Asia-Pacific Tax Conference
Practical Problems of International Taxation, and some suggested solutions. In-depth programme focusing on tax and investment issues of relevance to the Asia-Pacific region. Essential for tax advisers from international accountancy and law firms, tax professionals from multinationals with locally-based operations. Presented by the International Bureau of Fiscal Documentation, Amsterdam.
Contact: Ms Martina van der Weg, IBFD International Tax Academy
Tel: +31-20-626-7726
Fax: +31-20-620-9397
SINGAPORE

NOVEMBER 19-20
Data Warehousing 96
Europe's premier conference and exhibition devoted to data warehousing and related issues. The multi-track conference explores critical, technical organisational and business success factors, including world-class speakers and case studies from the US, UK and Europe.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
E.mail: roz.meguinnes@business-intelligence.co.uk
LONDON

DECEMBER 4-6
Ventue Forum Europe '96
This year's Forum - the seventh in a series arranged by FT Conferences and Venture Economics - brings together expert speakers to discuss the latest developments in the European venture capital marketplace. Subjects include: fund raising; managing the European portfolio; exits and IPO markets in Europe.
Enquiries: FT Conference
Tel: 0171 896 2626 Fax: 0171 896 2696
LONDON

COURSES

SEPTEMBER 12 & 13
Global Custody
This course is designed for individuals who wish to gain an understanding of the concepts of the global custody product. Delegates are likely to have little or no background experience. Including:- * Background * Problems and Issues * Custody from the Users/Custodians Perspective * Basic/Additional Custody Services * The Cost of Custody * Usage of Technology * RISK and Opportunities.
Special Price £300 + VAT 2 days.
Contact: TFL/Nicola Blackman
Tel: 0171-606-0084/600-2123
Fax: 0171-600-3751
LONDON

SEPTEMBER 17-18+19-20
Identifying & Controlling Risk
This course is designed to provide business staff with the essential understanding of the Risk inherent in the processes required to support trading businesses. * Risk Matrix Overview * Trading & Bank Execution Risks * Operations * Financial Control * I.T. * Compliance * Business Overall * Definitions of Risk Management * Exposure Monitoring * Daily MTM & NII Reconciliations * Independent Pricing * Confirmations * Nostro & Depot Reconciliations
£445 + VAT 2 days
Contact: TFL/Nicola Blackman
Tel: 0171-606-0084/600-2123
Fax: 0171-600-3751
LONDON

SEPTEMBER 16
Options Modelling
For individuals who are new to Trading or moving into Derivatives Trading, Treasury Dealers, Graduates, Middle Office & Trade Support Personnel. The course includes: * Basics of Options * Intrinsic Value * Time Value * Underlying Price * Time to Expiry * Interest Rates * Volatility * Valuation Models * Explanation of "The Greeks".
£325 + VAT 1 day.
Contact: TFL/Nicola Blackman
Tel: 0171-606-0084/600-2123
Fax: 0171-600-3751
LONDON

SEPTEMBER 21-22
Chartered Institute of Marketing Diploma and Advanced Certificate
Courses in the above, delivered at weekend sessions in Cambridge. Designed for executives with heavy workloads but who want to advance their careers in marketing. Delivered by practising marketing professionals.
Call: Tina Theodorou, Cambridge Marketing College Tel: 01223 421903
CAMBRIDGE

SEPTEMBER 23-25
Combating Financial Crime Workshops
Acknowledged as the definitive programme of interactive training for business in combating, safeguarding and deterring financial crime, commencing September 1996. Course tutors from New Scotland Yard, Titmuss Sainer Dechert and Deloitte & Touche. George Staple, Director, Serious Fraud Office, is the keynote speaker at the September course. November course 25-27.
Call: Gary Hart, Trocki Limited
Tel: +44 (0) 171 836 1351
Fax: +44 (0) 171 836 1330
LONDON

SEPTEMBER 24-25
Understanding Treasury Derivatives
Training course covering risks in treasury markets and how derivatives can be used, Currency Options, SAFEs, FRAs, Futures, Interest rate swaps and related products. For Corporate Treasurers, bank dealers and marketing executives, financial controllers, systems and support personnel plus candidates for the ACI Diploma. £520 + VAT.
Lywood David International Ltd.
Tel: UK 44 (0) 1959 565820
Fax: UK 44 (0) 1959 565821
training@lywood-david.co.uk
LONDON

OCTOBER 14-15
Evaluating Banks
A Course for Analysts responsible for assessing Bank Risk. Review of the regulatory environment and the role of supervisors and the analysis of Bank's financial statements.
• Banking Supervision and Regulation • Financial Information • Political, Economic, Social Technological Risks, Country Risk Exposure Analysis • The Role of Credit Agencies • Case Studies on Banking Failures
2 Days £595
Contact: Fairplace
Tel: 0171 623 9111 Fax: 0171 623 9112
LONDON

OCTOBER 21-22
Facility Documentation
Essential training for anyone involved in documenting overdrafts, loans and other facilities.
• Types of Borrower and their legal identity, Facility Letters, Covenants, Letters of Comfort • Lending, Guarantee & Security Documentation, Registration Procedures • Legal Requirements, Regulatory Environment
2 Days £595
Contact: Fairplace
Tel: 0171 623 9111 Fax: 0171 623 9112
LONDON

OCTOBER 23-24
Throughput Accounting in Manufacturing - A Business Strategy
This course, from the UK's leading independent experts on planning, scheduling and production control, explains how cost accounting can be very mis-leading. We will show you how to identify how your business really makes money and how to harmonise your financial and operational business measures.
Contact: SYNCHRONIZED MANUFACTURING
Tel: 01635 532552 Fax: 01635 550855
NEWBURY

SEMINARS

SEPTEMBER 22-27
Bank Financial Management International Seminar
Heighten your awareness of the key strategic variables affecting financial decisions in banking and consolidate your knowledge using BankMod, a computerized banking simulation.
For financial institution executives.
The Institute of Canadian Bankers
Tel: (514) 840 8720 Fax: (514) 282 6450
e-mail: inscinfo@icb.org
BANFF, CANADA

SEPTEMBER 25-26
So You Want to Buy a Form Fill & Seal Machine Liquid Filler
Seminars designed to bring packaging machinery specifiers up to date on the 'state of the art' in a range of specific types of equipment. Sessions cover different design approaches and ways in which various machine types carry out their function.
Brochure and registration from: Beryl Nassé, PPMA Ltd
Tel: 0181 681 8226 Fax: 0181 681 1641
NORTHAMPTON

OCTOBER 9
Lean Enterprise Seminar
Practically-based, one day seminar covering the principles of 'lean enterprise' and including a visit to a case study company to see the philosophy being successfully applied. Aimed at CEOs, managing directors, production directors, personnel directors and senior managers in private and public sector companies and organisations, particularly those operating in a process based environment.
Contact: Glasgow & Associates
Tel: 01772 881888 Fax: 01772 885777
106054.3667@Compuserve.com
LANCASHIRE

OCTOBER 15
Fabian Business Seminar
Regulation & Partnership: A New Approach
Labour & the future of Utilities
Speakers: Rt Hon Margaret Beckett MP, Kim Howells MP, Mike O'Brien MP, Jean-Claude Banon, Michael Lyons, Linda Lennard.
For details and booking call Neil Stewart Associates on 0171-222 1280 / fax - 1278
LONDON

NOVEMBER 4-6
Data Mining/Data Warehouse (Seminar)
The complex interaction of information and decision technologies and their application to business solutions are explored by NCR, IBM, SQL, ISL and SPSS, plus expert reviews and end user case studies. Data Mining, Middleware, data cleansing, warehousing, EIS/OLAP tools: how can they support the information and analytic needs of the corporate decision maker.
Contact: UNICOM
Tel: 01895 256 484 Fax: 01895 813 095
email: alec@unicom.co.uk
LONDON

NOVEMBER 6-7
Putting Knowledge Management to Work
Karl Wiig (USA), Leif Edvinsson (Sweden), Annie Brooking, Ron Young (UK) and others, relate their experience and discuss how to exploit the organisation's greatest assets: knowledge and IPR. Tools, techniques and case studies set against the corporate mission are presented as a practical guide: how to derive maximum benefit from "Knowledge Management".
Contact: UNICOM
Tel: 01895 256 484 Fax: 01895 813 095 email: mine@unicom.co.uk
LONDON

NOVEMBER 12
EVA: An Integrated Management Framework for Creating and Enhancing Shareholder Value
An intensive one-day executive seminar led by two of the foremost authorities on shareholder value, Joel Stern and G. Bennett Stewart of Stern Stewart and Co. on the principles and applications of EVA. How to develop and implement a framework for financial management and incentive compensation using Economic Value Added.
Contact: Business Intelligence
Tel: 0181 543 6565 Fax: 0181 544 9020
E.mail: roz.meguinnes@business-intelligence.co.uk
LONDON

EXHIBITIONS

OCTOBER 1-2
INPOWER 96 EXHIBITION
The 12th Independent Power Generation Exhibition for specifiers, purchasers, manufacturers or operators of power generation equipment and services in any organisation. The exhibition is being staged alongside the INPOWER technical conference. For further details and/or complimentary exhibition tickets contact: Nicky Molloy, Tel: +44(0)1737 768 611, Fax: +44(0)1737 761 685
Wembley, LONDON

LANGUAGE COURSES

BUSINESS EDUCATION

BUSINESS TRAVEL

Travel News · Roger Bray

No ticket to ride

Some passengers are still nervous of British Airways' first experiment with ticketless travel, which started in July. But while some are not completely happy without a conventional ticket, most are happy with the ease of booking with a credit or charge card, swiping that card through a machine at the airport, and receiving a boarding pass automatically. The scheme – available only to customers with no bags to check in – is being tested on flights between London Gatwick and Aberdeen. By the middle of last month, 452 passengers – about 3 per cent of travellers on the route – had taken advantage of the scheme.

Carrier's class act

British Midland is attempting to put clear blue sky between itself and the new breed of low-cost carriers sprouting in Europe.

Industry observers expect an imminent announcement that it will strengthen its appeal to business travellers by splitting its cabins into two classes on domestic flights. It already offers a separate Diamond EuroClass for European routes to premium passengers, and is planning to soup this up with extra luxuries such as wider seats and new airport lounges.

Crime alert

Violent crime is on the rise in the central American republic of Honduras, which is bordered by El Salvador, Guatemala and Nicaragua.

The UK Foreign Office warns of a continuing increase in armed robbery, car hijacking, burglary and assault. Officials advise visitors not to wear jewellery or carry large amounts of cash and to avoid travelling by road at night. Particular care, it says, should be taken in the poorer areas of the capital, Tegucicalpa.

Beat the traffic

A helicopter link is planned between Bangkok airport and the city's new Peninsula Hotel, which is due to open towards the end of next year. If the proposal goes ahead, guests will avoid a taxi ride which can take more than an hour. The Peninsula is being built on the Chao Phraya river, opposite the Thai capital's most illustrious hotel, the Oriental.

Always in touch

It's hard to give the office the slip at New York's Rhiga Royal in mid-town Manhattan.

Guests staying in the hotel's Pinnacle suites are provided with a cellular telephone and calls to the suite are automatically forwarded to the mobile phone when you're out.

Failing that, the office can send you a message on your private fax. What do you mean, you didn't get our message?

Wizard flights to Oz

Three airlines have agreed to offer a £745 return fare to Australia via Hong Kong, Kuala Lumpur or Bali. Stopovers are allowed in each of those places.

The carriers are Ansett Australia, Britain's Virgin Atlantic and Malaysia Airlines. The range of Australian destinations available depends on the route you take, but you could fly via Kuala Lumpur, for example, to Sydney, Brisbane, Melbourne, Cairns, Adelaide, Perth or Darwin. An extra £100 buys two domestic flights with Ansett in Australia.

Fares are available until October 31 for outbound travel in November, or between January 29 and April 15 next year.

Likely weather in the leading business centres

Poor communications and bureaucracy make eastern Europe frustrating, warns **Scheherazade Daneshkhu**

A porter? Sorry, they're all drunk

Travel is meant to broaden the mind but you may already need a broad mind to visit some of the world's newer business destinations.

Imagine being asked to get up from your aircraft seat to help refuel the plane, or being told once you arrive at a hotel that you will have to find your room and carry your luggage because the porters are drunk in the basement.

Business travellers to eastern Europe and the former Soviet Union have been greeted with such idiosyncracies, according to a survey of 500 UK executives conducted by Lufthansa, the German airline.

The region has grown rapidly in importance as a business destination: equity investment inflows into central and eastern Europe and Russia rose from $4.7bn in 1993 to $12.1bn last year, according to the Washington-based Institute of International Finance.

However, a quarter of those surveyed found travelling in the region difficult and a third said it was frustrating. Almost all agreed that facilities for business travellers should be improved.

One banker who visits the region frequently says conditions are generally getting better, with some of the national airlines providing good value for money.

However, travel becomes harder the further east you go. "Central Europe is not very different from travelling around western Europe; it's easy to get around town and the hotels are good. I cannot say the same for some other countries and in Russia, which does have some very good hotels, they are very expensive."

The survey found Poland was the most common destination followed by Hungary and the Russian Federation.

A common complaint was of poor communications with more than half the executives reporting that telephone lines frequently did not work. Just under 40 per cent said no telephone or fax was available when needed and 28 per cent said they had difficulty making internal calls.

The cost of telephoning was also a problem; one executive found that his Prague telephone bill was higher than the hotel bill for four nights accommodation.

Of those that took a taxi, almost two-thirds believed they were overcharged. Just over 40 per cent of those that hired a car reported bad road conditions.

Travel was not the only obstacle. Just over 55 per cent of those surveyed complained that bureaucracy was a problem, and two-thirds said corruption was also a barrier.

Lack of knowledge of local customs and the language was also a source of embarrassment. Most travellers did their research on local customs by talking to colleagues or reading guidebooks.

Meetings are more frequent, they tend to go on for longer and to be attended by more people. Socialising is more important with more drinking involved, the survey found.

Despite the frustrations, only 10 per cent of travellers said they would give up going to the region and only 5 per cent felt unsafe when travelling in eastern Europe.

Lufthansa, which has published an 84-page guide to business opportunities in eastern Europe, intends to issue quarterly information bulletins as a response to another survey finding - that half the travellers were not provided with information on the region by their travel agent.

The airline has increased its flights to the region in what is becoming a very competitive market. Austrian Airlines, Swiss Air, SAS and British Airways are among those that have also expanded their network in recent years. Business travel agents said national carriers, such as Poland's Lot and Hungary's Malev, have also improved their services.

Mr Frank Zehle, marketing manager at Lufthansa for UK and Ireland, said air travel to the region was increasing by between 10 per cent and 15 per cent a year, compared with between 5 per cent and 6 per cent for western European countries. However, the growth is slowing - three years ago it was closer to 25 per cent a year.

Getting by in eastern Europe

Poland
- Formal address in Polish is expected
- Polite small talk is appreciated as a prelude to hard-talking business
- Poles often expect on-the-spot decisions

Lithuania
- Straight questions receive straight answers
- Delegation is almost unknown and it is rare for a junior to open a letter addressed to someone senior, even if they are away
- Offer a cigarette if your host has an ashtray on the desk. This may ease your introduction

Latvia
- Latvians can be reserved and formal with foreigners
- Until you know the ethnic background of your host, try to avoid the topics of Russia and ethnic Russians
- Avoid talking about organised crime

Estonia
- Specific, rather than open, questions tend to get a better response
- Estonians are comfortable with silence. Don't be surprised to ask a question more than once and still be greeted with silence or just 'yes'
- Delegation does not exist in some workplaces. In others secretaries will take messages, open letters, etc. When work has been delegated, check if anyone is monitoring progress

Russia
- Most Russian business people have high expectations of their western counterparts, who are judged by their attire, so dress well
- A firm handshake is important
- Negotiating an agenda at the beginning of a meeting is very important
- Smoking in meetings is very common
- Written communications are very important, especially with large bureaucracies, so keep a copy of everything

Ukraine
- A knowledge of both Russian and Ukrainian - and when to use each language - is vital
- Extreme deference is shown to those in authority by juniors

Czech Republic
- Using a person's title is customary
- Managing directors should be addressed as *reditel* and the chairman as *predseda*
- It is a good idea to use a translator in meetings as many executives do not have a working knowledge of English

Kazakhstan
- Russian is the main business language
- Book appointments for meetings in the morning when people are at their workplaces
- Cancellation, even at the last minute, is fairly common
- Politics and business are intertwined. Be au fait with news and rumours

Hungary
- Verbal greetings are important, even in shops. A smile and nod is not enough
- Formal introductions involve shaking hands then saying the full name
- Giving and receiving gifts is very common. Take promotional gifts with you

Serbia/Montenegro
- The approach to business is quite casual, and people are open and hospitable
- It is traditional for a business host to welcome guests with drinks before a meeting
- English is the most common business language

Bulgaria
- A nod of the head means 'no' and a shake of the head means 'yes'
- Business attire is conservative but not overly formal
- Bulgarians are very hospitable, and it is usual to invite your host to a good restaurant

Romania
- Business dress is usually informal
- Punctuality is strictly observed
- Smoking is prohibited on public transport, in cinemas and in theatres. However, many Romanians smoke and western cigarettes are appreciated

Turkmenistan
- The culture of hospitality often masks a distrust of westerners. Turkmens are wary of new commitments [illegible]
- [illegible]

Uzbekistan
- Russian is the language of business
- Uzbek hospitality is renowned, and it may be regarded as insulting to decline an invitation to a private function

MEDIA FUTURES

Electronic undesirables

SE Asian states are divided on how to police the Internet, James Kynge writes

The waiter at a Singaporean cyber-space café exhibited exactly the sort of tendencies his government is trying to curb. As I chatted innocently online with a local person, the waiter came over and stood behind me.

"Boring," he said. "Singapore chat-lines are always boring. If you want real dirty talk, you should try the United States."

I had not asked for anything pornographic, but the waiter seemed certain that that was what I wanted, so he swung my keyboard towards him and started tapping. He was out of luck. All lines to the US were engaged.

Singapore's government would have been dismayed – even shocked – by the waiter's behaviour. While claiming that it wants to embrace the information age wholeheartedly, the government has been attempting to insulate its island-state from undesired western influences.

If it can, the government particularly wants to keep out pornography, hate mail, politically hostile material and other influences that could erode the citizenry's standards of personal decorum and respect for family and state.

As Lee Kuan Yew, the government's senior minister, put it with characteristic (if puzzling) precision last year, Singapore wants western influence in the city-state to diminish from 60 per cent now to 40 per cent in 20 years' time. There will be a corresponding renaissance in Asian values, he predicted.

Last week, Singapore hosted the first effort by south-east Asian countries to formulate a common approach to the "perils" posed by the Internet. The seven member nations of the Association of South East Asian Nations (Asean), a grouping which comprises over 400m people living in one of the world's fastest-growing regions, met in a hotel a few streets away from the cyberspace café where the waiter had tried to introduce me to US lustfulness.

But hopes of achieving a common policy for regulating and policing the south-east Asian loop of the global information superhighway foundered. Despite Singapore's insistence that Asian values are shared throughout the region, it was the diversity of attitudes among Asean countries which made any common approach to the Internat elusive. Asean's members are Singapore, Malaysia, the Philippines, Thailand, Brunei, Indonesia and Vietnam.

The Philippines and Thailand took the most liberal stances, calling for self-policing by Internet service providers and minimal government intervention. Glenn Sipin, deputy executive officer of the Philippine Council for Advanced Science and Technology, said his country was committed to freedom of speech on the Internet, adding that there would be no censorship of political material in his country.

Malaysia and Indonesia said they would study further what steps could be taken in the direction of self-policing, but did not commit themselves. Indeed, a joint communiqué issued at the end of the three-day conference made a substantial concession to individoalism. "The forum agreed that the appropriate regulatory framework would depend on the culture and legal system of each particular country," it said.

Alone in Asean, Singapore has taken a systematic approach to regulating the Internet. From next Sunday, it will require 120,000 individual subscribers to route their requests for access to Internet sites through "proxy servers". These large computers, estimated to cost the government S$200,000 (£91,000) each, will check requests for access against a blacklist of sites containing objectionable material. Once they spot a request for a banned site, they will block it.

The government said that the servers, which are not mandatory for business users, would speed up the use of the Internet. Technical experts disagreed, saying that the time it would take the servers to check material against the blacklist would cause delays.

The fact that, so far, the other Asean countries are showing less regulatory vigour than Singapore does not necessarily mean they feel less strongly about the threat to their societies from alien influences.

Stephen Leong, assistant director-general of the Institute of Strategic and International Studies in Malaysia, said the Internet posed a challenge to one of the fundamental principles upon which the political order in Singapore and Malaysia was founded.

In Malaysia and Singapore, he said, some individual freedoms of expression had to be sacrificed for the benefit of society. For example, most people in Malaysia who remembered the bloody race riots of 1969 did not find it difficult to accept that it was illegal to publish material which could incite racial disharmony.

But with the anonymity which the Internet provides, officials acknowledge, there is a risk that racially divisive material could proliferate in cyberspace. Indeed, some other regulations have already been rendered obsolete: Malaysia proscribes the circulation of Singapore's newspapers, but any Internet subscriber can now read most Singaporean newspapers as soon as they are published.

Similarly, foreign newspapers have to be cleared each morning by a censor before they can be distributed in Malaysia, but these same newspapers can be read on the Internet *before* the censors see them.

Observers say that the reason countries such as Malaysia are reluctant to regulate the Internet – beyond ordering service providers to block a few Web sites – is that they believe that their commercial future hinges on Internet technology.

There are 1.5m Internet subscribers in Asia, and the number is reckoned to be growing by 10 per cent each month. In several Asean countries people are already shopping, banking and advertising over the Net.

Last month, Mahathir Mohamad, Malaysia's prime minister, launched his boldest plan yet: a scheme to attract foreign media, software, information technology and manufacturing companies to a "multimedia supercorridor" in an area of 750 sq kms near the Malaysian capital, Kuala Lumpur.

He said that new laws more liberal than those that apply to the rest of the country would exist within the corridor, and he pledged that there would be no censorship. It was clear he had decided that Malaysia cannot afford a reputation as a heavy-handed censor and regulator of information if it is to attract foreign investment crucial to the corridor project.

But the most striking conversion has been that of Anwar Ibrahim, Mahathir's deputy prime minister, who started his political career as an Islamic firebrand with fundamentalist beliefs. At a conference to launch the supercorridor idea, he recalled the young woman who streaked across Wimbledon's Centre Court before the men's tennis final to illustrate his belief that when regulations fail, the result is not always unpleasant.

"Everyone was clapping, and I clapped too," Anwar told the conference. "The police came and took her away. But I am glad to say that they let her go without charge."

Tim Jackson

Oftel's irregularity

SOME weeks ago, Britain's telephone regnlator, Oftel, published a consultative paper on the renumbering of area codes.

Tha document produced angry responses from people who failed to see why, after two large-scale renumbering operations in recent years, a third should be necessary so soon – and why, if the US can operate on a simple system of three-digit area codes and seven-digit local numbers, the much smaller number of telephones in Britain requires a confusing mixture of codes, some of which are longer than others.

The paper itself provides no convincing answer to either of these questions, other than a mixture of regulatory incompetence and an attempt to arrange area codes so that they reveal to the customer what the call will cost.

Since Britain now has dozens of different call rates, this attempt is probably doomed – and probably also unnecessary, because it would be far simpler to tell customers what it will cost to make a call by allowing them to punch in a short code followed by the number itself.

What fascinated me most about the document, however, was the process I went through to obtain it. It was actually delivered to my house by hand by a kindly Oftel employee, partly because of a postal strike and partly because the paper was *not* expected to be on Oftel's site on the World Wide Wab for another two weeks.

To US readers, it may sound hard to believe that in the field of telecommunications, where interested parties are spread across the world and many have access to the Internet, a public document should appear on the instantaneous, low-cost Web some time after its publication in print.

Yet Oftel, like other British government departments, uses a curious system for publishing on the Web which has lessons for any organisation, private or public, that is taking its first steps online.

Every time Oftel wants to put a document on the Web, it sends it to a body called the Central Communications and Telecommunications Agency, more than 100 miles away. This agency, which deals with 115 public sector organisations and 60 governmant departments, then publishes the paper on its own site, *www.open.gov.uk*, at no cost to Oftel.

After looking at CCTA's Web site and what it does, my conclusion is that this approach is a blind alley. The first and most obvious problem is inefficiency. A delay of two weeks in publishing a report online may not sound much, but it is enough to make most potential readers choose the paper version instead.

In some cases, snch as press releases, a delay of 24 hours can be enough to render tha online information useless to the people it is intended for. Any one of dozens of small Net consultancies could provide Oftel and other government departments with far swifter service at a very modest cost.

But there ara bigger issues at stake. Although the range of information on CCTA's Web site is superficially impressive – police lists of Top 10 stolen valuables, minutes of meetings between the chancellor and the governor of the Bank of England, a traveller's guide published by Customs, a report on the health of the nation – *it is deficient in a fundamental sense.*

An important feature of the Web is that it removes intermediaries from the process. It allows individuals in organizations to publish so easily that it is quicker to post a document on the Web than to have a meeting about whether it should be posted.

When a body like CCTA is introduced, however, the process becomes just like existing paper publishing. It is no wonder that the site lists its principal resources as "ministerial speeches, press notices, and statistical data": these are exactly the kind of documents that government *publication* departments have been pressing on a reluctant public for decades.

Another feature of the Web is that it is becoming a two-way medium. New technologies allow Web pages to consist not of documents whose contents are frozen in advance, but of information that is gathered from a database specifically for a single reader.

Online brokerages invite buy and sell orders across the Net. Federal Express offers customers the ability to trace the journey of a lost package. Booksellers allow people to send a book to a friend, and choose the paper it is to be wrapped in.

Companies across the world are learning, in fits and starts, how to take advantage of this new medium. By contrast, a system built on the CCTA principle isolates its government clients from the pressure to keep np with these changes.

According to one of CCTA's Web pages, Britain is involved in a G7 project to bring governments online. A measure of how slow and outdated tha thinking behind this project is can be saen from its ambition to produce "measurable results by 2000".

The best advice to other governments would be to avoid the CCTA system, avoid the G7 programma, *and make each department* do everything directly. The process will yield mistakes and embarrassments before results.

But within a year or so, it will put them online more effectively than any hand-holding system can.

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Cyber sightings

by Stephen McGookin

● The excellent Web site devaloped hy Federal Express (*www.fedex.com*) to help customers track their packages around the globe was recently npdated to include home pages for Europe, Africa, the Middle East and India. This is a good example of a company *understanding* the true usefulness of the Web. A study carried out by Federal Express in the US indicated that, *ordinarily*, more than half the people accessing the page would have called its customer service department *with their query*.

● One site well worth a visit is that of CIT Research, which specialises in international communications. The site (*www.citresearch.com*) gives details of developments in the sector. The 'Statistics of the month' feature is very good, currently focusing on the future of data network standards – and the site is in English, French, Spanisb, German and Italian.

● The International Federation of Training and Development Organisations is holding its annual conference in Egypt from November 4 to 7. The theme: "Designing the future." Details can he found at *www.team-international.com/iftdo/index.html*

● Navio (*www.navio.com*) is a venture led by Netscape aimed at extending the power and potential of Internet technology to a mass-consomer base through non-PC devices such as telephones and set-top boxes.

● The Washington DC-based Congressional Institute (*http://server.conginst.org/conginst*) helps activists and general readers understand public policy debates. Likewise, the Electronic Policy Network's Idea Central site (*http://epn.org*) is clever, well designed and full of excellent content. Definitely worth bookmarking.

● The Stockhouse Online Journal (*www.stockhouse.com*) has news and analysis of US small capitalisation stocks and general business roundups, as well as links to cool financial sites of the day. Worth persevering with since (as with many Frames-based sites) initial connections can be unpredictable.

● Compulsive stuff, eavesdropping on Net searches... Magellan's Voyeur (*http://voyeur.mckinley.com/voyeur.cgi#voyeur71*) gives you a random selection of 20 searches being carried out on the Magellan search engine. A fair proportion of the sites sought are erotica related, but it is fascinating to glimpse what other weirdness abounds.

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Michael Thompson-Noel

Rugby union's fumbled professional conversion

Following the absurd twists and turns that characterise English rngby union'e attempts to get to grips with professionalisation can damage your health. To plot the twists on a daily basis would destroy billions of brain cells, so I don't. Instead, I take a peek now and then at this peculiar and most primitive of sports.

Today, in Dublin, details of an agrement between England, Ireland, Wales, Scotland and France are due to be revealed, marking an end for now to the row over the English Rugby Football Union's deal with British Sky Broadcasting concerning satellite TV screening of the Five Nations championship from next season.

Cheekily, the other four had threatened to kick England out of the competition if it did not give them more of the money it was receiving from Sky, even though a Four Nations championship would have been woefully insipid.

With luck, the controversy over England's Five Nations satellite cash has been resolved, at least until the next time. But the sport in England is still suffering other stresses.

In particular, a struggle for power between the RFU and the leading clubs has underlined the lack of readinese with which the RFU stumbled into the professional era.

As usual, newspaper readers are being offered violently different interpretations of unfolding events. English sportswriters come in two main types: those who profess to hate the impact money and commercialisation are having on sport, and those who don't.

In The Daily Telegraph last Thursday, Paul Hayward supplied a fine example of the ostrich school of sportswriting. "The most convivial and civilised and unpretentious of British ball games," he wrote, "is scrabbling in the muck for money... Call it romanticism if you must, but rugby union was... about bonhomie and drunken trips and frost-bitten fingers curling round pints on bitter winter Saturdays... [Now it is becoming] indistinguishable from all the other over-commercialised sporting gunk being shoved into our homes."

In contrast, the far more sophisticated Stephen Jones, in yesterday's Sundey Times, said that professionalisation was not to blame for the sport's ills. What rugby union was still suffering from was amateurism.

In the sonthern hemisphere the sport had embraced professionalism joyfully, "making the game cleaner and more spectacular and more profitable," he wrote. Compared with the New Zealand union, for example, England's RFU was a preposterously structured body "with not a scrap of representative relevance to the modern game".

To save 30bn brain cells, I think I'll stick with Jones.

■ The bomb blast and organisational chaos that scarred this summer's Olympic Games in Atlanta seem to have convinced Swedes that it would not be a brilliant idea for Stockholm to host the 2004 summer games.

A survey of 1,100 Swedes carried out late last month found that opposition to hosting the Olympics had jumped to 52 per cent. Before Atlanta, only one in three Swedes was reckoned to be against staging them.

"It is the effects of Atlanta, all the bad press," Olof Stenhammar, who is spearheading Stockholm's bid, told Swedish newspapers. An International Olympic Committee team is due to visit Stockholm this month to assess the city's plans.

However, the Swedes' fastidiousness will not prevent the struggle for the games of 2004 becoming even more tumultuous than the contest for the games of 2000, won by Sydney. The other 2004 bidders are Athens, Rome, Cape Town, Buenos Aires, Rio de Janeiro, San Juan, Seville, St Petersburg, Lille and Istanbul.

Meantime, International Business Machines is trying to put a steel-capped smile on its misfortunes in Atlanta by combining with North America's National Hockey League to form an enterprise called NHL-ICE, which will upgrade the sport's ancient scoring system, build a digital library and extend the league's presence on the World Wide Weh part of the Internet.

Starting with the 1996-97 season, the NHL will use four scorers at each game to chart the action on laptop computers and send results to an IBM database – ho, ho, ho – which will then feed them to the Internet.

A league spokesman said he was satisfied there would be no repetition of the IBM fiasco that upset the flow of results to the media in Atlanta a month ago. Richard Selvage, general manager of IBM Media and Entertainment, added that the faulty results system in Atlanta was only one of many systems IBM had in place during the games.

"Unfortunately, it was probably the worst one we could have had a problem with. In the case of the NHL, we've tested this system at Stanley Cups and elsewhere, and it'e worked very well and we're very comfortable with it. Besides, this is a much smaller system than we had at the Olympics."

The league's Web site is at *http://www.nhl.com*. The library is under construction and will eventually offer digitised replays of all games. Some of the library's material will be available via the Web.

■ If Goran Ivanisevic did not exist, tennis would be indescribably poorer. The Croatian was in fine form and voice last week as he powered through the later etages of the US Open in New York. "Whoever wants to beat me, the guy has to play unbelievable," said Ivanisevic, who was seeded fourth and whose four-set win against Russia's Andrei Medvedev lined him up for a quarter-final clash with Swedsn's Stefan Edberg, playing in his last grand slam event.

"I said that if I reach the second week I can do a lot of damage in this tournament," said Ivanisevic. "That's what

I am doing now. I'm playing better and better every match." In the event, the whippet-thin Croatian beat Edberg 6-3 6-4 7-6, having served 26 aces, though he reckoned he had "played not great tennis" against the Swede. On the other hand, ha had stayed "very cool", even when the notorious NY crowd got behind Edberg in the tie-break.

Ivanisevic has a long history of talking to himself. "The second week, usually I was coming here to pick up my prize money and leave. When I came here today I said: 'What are you doing here?' Then I said: 'OK, you play.' It is coming to my mind that I can do well. The country, the [playing] surface – now I start to like it more and more."

Because of his volatility, Ivanisevic has often clashed with officials. Usually, he says, he voices his most colourful descriptions of umpires', linespersons' or opponents' intelligence and antecedents in Croatian. And, deliberately, he waits until there is a lot of noise – shouting, applause – among spectators before muttering his choicest epithets and rustic proverbs.

But he ought to be careful. He may not know it, but the people who run tennis have got a little book that lists all swear words (well, a good number of them) in many languages, expressly to catch comedians like him.

Anyway, the Croatian'e luck ran out in the semis, where ha was beaten 6-3 6-4 6-7 6-3 by Pete Sampras, the defending champion and chief boy scout of America. Sampras had been ill on court in the previous round. "I knew he was going to be strong," said Ivanisevic. "He only threw up. He didn't die."

Leicester's Eric Miller being tackled by Bath's Martin Haag on Saturday. Rugby union faces many crunching challenges

■ Top soccer managers have to cope with extreme pressures, which may explain Roy Hodgson's hostage-to-fortune remarks in the run-up to the start of Italy's *Serie A* season. After a free-spending eummer, English coach Hodgson is at the helm of an Inter Milan team groaning with talent, with players from eight countries and three continents to choose from.

They include Chilean Ivan Zamorano, Argentina's Javier Zanetti, Aron Winter of the Netherlands, France's Youri Djourkaeff and Jocelyn Angloma, Ciriaco Sforza of Switzerland and England's Paul Ince.

Inter still has some top Italians on its books, including strikers Marco Branca and Maurizio Ganz, but there could be times this season when the club fields as few as four Italians.

Hodgson says: "At the moment the squad looks good. As far as I'm concerned, we lack nothing. There's no player that I would really have liked that we haven't got" – an astonishing thing to have said.

Club president Massimo Moratti has said hs expects a decent return on his investment in the shape of the *Scudetto* (title shield), which has been won four times in the last five seasons hy arch rival AC Milan.

Not surprisingly, the Gazzetta dello Sport maintains that Hodgson now has no excuses. If Inter does not win the title, it says, it will "be hard to blame anyone other than the coach". To Hodgson's relief, Inter won their opening game on Saturday night, beating Udinese 1-0 with an early goal by Sforza.

■ Britain's bookmakers have never lacked chutzpah. Take Frank Bruno, the British boxer (recently retired) who made them more money than even they thought possible. "We won millions thanks to Frank, and are devastated he has had to hang up his gloves," says Graham Sharpe, spokesman for William Hill, one of the UK'e Big Three commercial bookmaking firms.

"Frank was eo popular with the punters that they plunged absolute fortunes on him when ha fought for the world title against Tim Witherspoon, Mike Tyson and Lennox Lewis – and lost all three. They didn't quite believe he would beat Oliver McCall, so didn't back him very heavily, and of course he won. That victory encouraged punters to back Frank to beat Tyson the second time, with disastrous results."

But Hill is keen to wring a few more pounds out of poor old Bruno. It is offering 5-1 against him being knighted in the next New Year'e honours list, and 33-1 against him being named BBC TV Sports Personality of the Year.

Ridiculous.

ARTS

OPENINGS

MANCHESTER Bridgewater Hall, Manchester's new £42m concert hall, will be inaugurated by the Hallé Orchestra on Wednesday. Kent Nagano conducts the first two concerts, featuring new works by Thomas Adès, George Benjamin and John Adams (below). The opening week also includes performances by the BBC Philharmonic and Chicago Symphony Orchestras.

LEIPZIG [illegible] Karlheinz Stockhausen's gargantuan music-theatre project *Licht* – the seven days of the week, moves a step nearer completion this week with the première of *Freitag* at the Leipzig Opera House. There are four performances, starting on Thursday.

NEW YORK City Opera's 1996-7 season begins on Thursday with Verdi's *Falstaff* starring Sherrill Milnes. The season also includes new productions of Britten's *The Turn of the Screw*, Gottfried von Einem's *Der Besuch der alten Dame* and Offenbach's *Les Contes d'Hoffmann*.

WASHINGTON Leonard Slatkin's (below) first season as music director of the National Symphony Orchestra begins on Thursday with an all-American programme including [illegible]. Slatkin, who succeeds Mstislav Rostropovich, was formerly conductor of the Saint Louis Symphony Orchestra.

LONDON [illegible]

VIENNA [illegible]

Male swans take flight again

Matthew Bourne's Swan Lake opens for an extended West End run this week, Alastair Macaulay reports

Before he was a dancer or choreographer, Matthew Bourne was a fan. Now 36, he recognises some of the fans who stand at the stage doors today from 20 years ago. Although he remarks wryly "I think I might have grown out of it", he observes that he is excited by "the possibility of working with people I've admired".

The great ballerina Lynn Seymour came to ask to work with him after seeing, three times, the hit version of *Swan Lake* he made for his own company Adventures in Motion Pictures last year. Now she is learning the role of the Queen, for performances during its West End run.

In August, Baryshnikov – who, 19 years ago, was Romeo to Seymour's Juliet – came to watch a rehearsal. He told Bourne "you've made me fall in love with *Swan Lake* again" and said the dancers were "phenomenal" – he is flying over to see a performance next month. Baryshnikov has also asked Bourne to choreograph a piece for him and for the White Oak Danca Project, which he directs.

This *Swan Lake* had its genesis, however, in Bourne's admiration for a mnch younger dancer, Adam Cooper, 25, of the Royal Ballet. Bourne dared to envisage Cooper – an intelligent, tall actor-dancer with a remarkably fine use of the upper body – as the Swan: the ambiguous Romantic ideal at the core of this work.

"The reason Adam is so perfect is that he's a masculine presence onstage, attractive and mysterious; and his arms are wonderful. He was, I felt, some sort of creature from another world."

One of Cooper's first ideas for this *Swan Lake* was to use Fiona Chadwick, as the production's Queen. Chadwick is an experienced ballerina whom the Royal Ballet in its inscrutable wisdom made redundant.

"She was fantastic. When we were working on the Act One duet, I wanted her to look hack at her son. We came up with three different looks, and she did them all perfectly. But it was the one she had thought up that *I* loved, and that's the one we kept."

Bourne began serious dance training in his 20s and began to choreograph professionally for his company in 1987. Though he has choreographed works without stories and works to modern music, it is his reconceived versions of 19th-century hallet repertory – along with his work on dances in such West End musicals as *Oliver!* – that have won most attention. He made a successful new version of *The Nutcracker* for that work's centenary in 1992; his acclaimed *Highland Fling*, new in 1994, is a modern version of the archetypal Romantic ballet *La Sylphide*. Does he call them ballets?

"Some people call them that. I call them shows. I've become a lot more relaxed in my way of making dances. I used to plan a lot heforehand; and often made highly convolnted stuff. Then I learnt to ask my dancers to try this or that way of developing the material. 'Do that twice; try *this*'. Now I work entirely with them. We look for an idea, a feeling, together; and we see what flows from there."

He also reads a lot around the ideas in his shows.

"For *Swan Lake*, I did plenty of research into royalty too, and royal mother-son relationships. Things like tha way the Queen used to visit her children at tea-time, or would only shake her son's hand in public: that all contributed."

The setting is, he says, very 1950s and the Queen's son is, at first, very military. "There's a Soho scene the point of which is to represent scandal, the kind of scandal that first rocked the establishment in the 1960s, with Profumo. The Kray Twins, tha young Barbara Windsor, Joe Orton, Christine Keeler, Beryl Reid (in *The Killing of Sister George*), Cliff Richard (in *The Young Ones*): they're all minor characters in this scene."

One friend asked Bourne what on earth he was going to do with the great music for the swan pas de deux in Act Two.

"I hadn't any specific clue. I did know thet if we couldn't pull off Act Two it wouldn't work. And, once we'd established that, that whole act would be in the Prince's imagination. I knew that duet – between the Prince and Adam as the Swan – had to work as a dance. In the event, it troubled us a long time. It felt very awkward with the lifts. I kept thinking 'What does this mean?' I didn't want to alienate an enormous part of the audience by making it a gay thing. I wanted it to be universal. I wanted the Prince primarily as a creature who wants to be loved."

Creature from another world: Adam Cooper, intelligent and powerful as the swan (inset, Matthew Bourne, choreographer)

To overcome the problems he returned to the basic premise: "It is a duet between a man and a bird. As soon as we made that realisation, everything fell into place. The swan's wings/arms could now be carrying, holding, wrapping him; and all the symbolism took care of itself. There can't help but be a distance between them, but the Prince wants the swan to *hold* him; and, at the very end of the duet, the swan wraps his wings round him."

'I didn't want to alienate an enormous part of the audience by making it a gay thing. I wanted it to be universal'

In the traditional Royal Ballet text of *Swan Lake*, as violin and 'cello voices nestle closely together in Tchaikovsky's score, a key moment occurs when the Swan Queen steps in front of the Prince, he cradles her in his arms, and rocks her from side to side. How does Bourne handle this moment in the music?

"There is a part of the Prince that can't accept what's going on, you see. But, at this point, the swan comes up and puts his arm/wing around him, and the Prince learns. In my version, the Prince is always the vulnerable one. That's how it should be. He hasn't been able to show any emotion in Act One.

"I took ideas too from looking at swans, live and on film. I must admit, if I'd cast it with women as swans, I would have had enormous trouble. I would have had to go too far in the opposite direction from tha traditional *Swan Lake*. By using men, I could already maka my swans different enough. I did want to get the ungainliness that swans have when they coms into land. They put their legs ont in front of them. To dance this, you have to have your weight *completely* back, then you come forwards and collect yourself. This was really tricky for the dancers to get."

In the traditional version, the ballerina reappears in Act Three as the enticing anti-heroine Odile.

"That was obviously one of the problems we had to solve: the 'Black Swan' scene. I had to work out: who *is* the Black Swan in my version? Well, he is the real-life version of the man of whom the Prince has fantasised so powerfully in Act Two. He's beautiful, he's free; everyone's attracted by him, everyone wants him. And the Prince, seeing him now, suffers severe jealousy.

"What I tried here – a filmic thing – is that the Prince puts himself into his mother's place. The Black Swan dances with all the women in the room, not least the Queen; and so the Prince projects on to him his own fantasy. And the duet here is what really gets me."

For Act Four, David Lloyd-Jones, music director and conductor, wanted to use Tchaikovsky's authantic 1877 score. This, acknowledges Bourne, is hard for any choreographer, because it is climax upon climax.

"My idea – taken from the music – was that the swans turn nasty. The music is very violent and terrifying and overwhelming. It had to be something significantly different. A change of gear, really. The swans entering the Prince's world. Previously they've been somewhere else – visions in his mind. Now they take over his head, his room. They take on an evil quality – and, by that point, he hates himself: which they reflect. They turn on the Prince because he has turned against nature – in his love for a swan and/or man."

Bourne wants his dancers to think of themselves as actors. "Perhaps what annoys me most with most narrative dance these days is the quantities of unmotivated movement. When I choreograph, I keep rejecting movement because I can't see a reason for it. It has to *feel* right."

Would Bourne like to make a plotless dance now?

"I feel too pushed in the other direction by other people to think of that right now. But if someone would commission me . . ." Perhaps Baryshnikov will oblige.

'Swan Lake' opens at the Piccadilly Theatre on September 11, with previews from tonight.

Theatre

A very visual curse

Taking Mercutio's dying curse as his cue, Pete Brooks has devised *A Curse on Both Your Houses*, a visually arresting though intellectually confused performance piece for the National Youth Theatre.

What do 24 young performers gain from being scene-shifting speechless automata, or from a piece which does not seem to know why it is pitching men against women (rather than Capulets against Montagues, or Sharks versus Jets) as aggressive anti-lovers in a war-zone?

Meanwhile Rosaline, Romeo's jilted lover, looks down from a high window on to the bullet-strafed piazza, and weaves a narrative which, after an hour and a quarter's worth of 24 *tableaux vivants*, smugly concludes that though she has been unlucky in love, at least she has lived to regret it.

It does look good. It is like a three-dimensional film, rolling the credits at the start and is staged behind a gauze, letter-boxed like a cinema-screen. Close-ups of screen lovers are projected in slow-motion behind the action. The set changes constantly and lighting fluctuates from crimsons to stark greys. Machine-gun fire punctuates Jeremy Peyton-Jones' pounding piano-and-drums score.

Sundry snippets of Shakespeare emerge from the din. So too do trite sub-textual fragments: "I know he's a womaniser," complains a young woman's voice; a phone call from an absent working dad echoes "hello darling, how are you? where's mummy?". Perhaps Brooks and his team want us to know that this, and not teenage suicide, is the humdrum consequence of adolescent romance?

However sceptical one may feel about the purpose of this work, one cannot help being overwhelmed by some of the stage images.

Simon Reade

The Place Theatre until September 14. Sponsored by Hanson plc.

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

EXHIBITION
Stedelijk Museum Tel: 31-20-5732911
● A Hundred Photographs: exhibition showing a selection of works from the museum's photography collection, including works by Man Ray, Robert Frank, Ed van der Elsken, Nan Goldin and Nobuyoshi Araki; from Sep 14 to Nov 17

■ BARCELONA

EXHIBITION
Museu Picasso Tal: 34-3-3196310
● Picasso and the Linocut: this exhibition features 66 linocuts from the collection of the Museu Picasso. Between 1954 and 1964 Picasso devoted great attention to tha linocut. His merit lies in the innovations that he made in this medium which brought about the consolidation of its identity and a substantial change in its procedure; to Feb 1

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Murray Perahia: the pianist performs works by Scarlatti, J.S. Bach and Schubert; 8pm; Sep 12

EXHIBITION
Kupferstichkabinett Tel: 49-30-26629598
● Aus der Klassischen und Späten Moderna Neuerwerbungen im Kontext der Sammlung: this exhibition focuses on drawings and graphic works that were added to the museum's collection over the last five years. Artists featured are Picasso, Camille Graeser, Alf Lechner, Dan Flavin, Dennis Oppenheim and Christian Boltanski. A complementary selection of works from the museum's collection provides a context for these recently acquired works; to Oct 13

OPERA
Staatsoper Unter den Linden Tel: 49-30-2082861
● Der Fliegende Holländer: by Wagner. Conducted by Jun Märkl and performed by the Staatsoper Unter den Linden. Soloists include Gustafsson, Bornemann, Grundheber and Vogel; 7.30pm; Sep 13

■ BRUSSELS

CONCERT
Palais des Beaux-Arts Tal: 32-2-5078466
● Orchestra of the 18th Century: with conductor Frans Brüggen and violinist Thomas Zehetmair perform works by Haydn, Beethoven and Rameau. Part of the Festival van Vlaanderen; 8pm; Sep 13

■ CLEVELAND

EXHIBITION
Cleveland Museum of Art Tel: 1-216-421-7340
● Dutch and Flemish Landscape from 1450 to 1650: this exhibition explores the development of landscape in northern Europe through mid-15th to mid-17th century prints, drawings, paintings and manuscripts. Exhibition on the occasion of the retirement of art historian Walter Gibson from his post as Case Western Reserve University's Andrew Mellon Professor of Humanities; from Sep 10 to Nov 3

■ EISENSTADT

CONCERT
Schloss Esterhazy – Festspiele Eisenstadt Tel: 43-2682-61866
● Philemon und Baucis: by Haydn. Conducted by Trevor Pinnock and performed by The English Concert and The Little Angel Theatre. Soloists include Nigal Robson, Jennifer Smith, Jeni Bern and Benjamin Butterfield. Part of the Haydntage; 8pm; Sep 10, 11

■ HELSINKI

CONCERT
Finlandia-talo - Finlandia Hall Tel: 358-0-40241
● Radio Symphony Orchestra: with conductor Jukka-Pekka Sarasta and mezzo-soprano Jean Stillwell perform works by Mussorgsky, Berio and Prokofiev. Part of the Helsinki Festival; 7.30pm; Sep 11

■ LONDON

CONCERT
Royal Albert Hall Tel: 44-171-5898212
● BBC Symphony Orchestra: with conductor Andrew Davis and violinist Sarah Chang perform works by Prokofiev, Tippett and Sibelius. Part of the BBC Henry Wood Promenade Concerts (Proms); 7pm; Sep 10

EXHIBITION
Barbican Art Gallery Tel: 44-171-6384141
● Erwin Blumenfeld: A Fetish for Beauty: retrospective of the work of 20th century photographer Erwin Blumenfeld (1897-1969). The exhibition features more than 350 pieces, drawn from the work he produced over 50 years, from his familiar fashion, portraiture and nude photography to land and city scapes, architecture and still-lifes. Also on display are early drawings, paintings and collages from his Dadaist period, and poetry and prose; from Sep 12 to Dec 15

OPERA
Royal Opera House – Covent Garden Tel: 44-171-2129234
● La Bohème: by Puccini. Conducted by Charles Mackerras and performed by the Royal Opera. Soloists Includa Amanda Roocroft, Elizabeth Futral, Luis Lima and William Shimell; 7.30pm; Sep 14

■ LOS ANGELES

EXHIBITION
MOCA at California Plaza Tal: 1-213-626-6222
● Kienholz: A Retrospective: this exhibition presents the full range of Kienholz'e own work and his 20 years of collaboration with his wife and partner, Nancy Reddin Kienholz. More than 100 pieces, ranging from intimate objects to house-scale environments, are displayed; to Nov 3

■ NEW YORK

EXHIBITION
The Metropolitan Museum of Art Tel: 1-212-879-5500
● Two by Two: a review of the history of fashion, from 1700 to the present, in reference to males versus females. The exhibition studies fashion through the ages comparing the clothes of men and women and reflecting on their mutual influences; from Sep 10 to Nov 17

■ PARIS

DANCE
Théâtre des Champs-Elysées Tel: 33-1 49 52 50 50
● Tango Pasión: a choreography by Hector Zaraspe to music by Stazo, performed by tha Ballet des Champs-Elysées. Soloists include Omar Ocampo, Monica Romero, Alberto Morra and Claudia Diaz; 8.30pm; Sep 11

EXHIBITION
Galerie Nationale du Jeu de Paume Tel: 33-1 47 03 12 50
● Un alècle de sculpture anglaise: exhibition focusing on 20th century British sculpture. The display includes works by Henry Moore, Barbara Hepworth, Tony Cragg, Richard Deacon, Jacob Epstein, Gilbert & George, Richard Long and Bill Woodrow; to Sep 15

■ SAN FRANCISCO

OPERA
Orpheum Theatre Tel: 1-415-861-4008
● Hamlet: by Thomas. Conducted by Yves Abel and performed by the Francisco Opera. Soloists include Ruth Ann Swenson, Judith Forst, Thomas Hampson, Robert Lloyd, Benoit Boutet and Kevin Langan; 7.30pm; Sep 12

■ VIENNA

OPERA
Wiener Staatsoper Tel: 43-1-514442960
● Les Contes d'Hoffmann: by Offenbach. Conducted by Jun Märkl and performed by the Wiener Staatsoper. Soloists include Natalie Dessay, Eliane Coelho and Heinz Zednik; 8.30pm; Sep 10

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Financial Times Business Tonight

No wait at the gate

Long-range aircraft may help revive makers of business jets, says Michael Skapinker

During his struggle to take over the Forte hotel company earlier this year, Mr Gerry Robinson, chairman of Granada, the UK television and leisure group, promised that victory would be followed by the quick sale of Forte's corporate jet.

The battle won, Mr Robinson decided to keep the jet after all. Granada says it has changed its mind about disposing of Meridien, Forte's international hotel chain – and the jet makes it easier for Mr Robinson and his team to visit the far-flung hotels, the group says.

Stories like these lift the spirits of manufacturers of corporate jets. They are desperate to shake off the image of the corporate jet as an example of 1980s decadence. The corporate aircraft, they say, is a business tool, enabling senior executives to save time, find new markets and improve returns to shareholders.

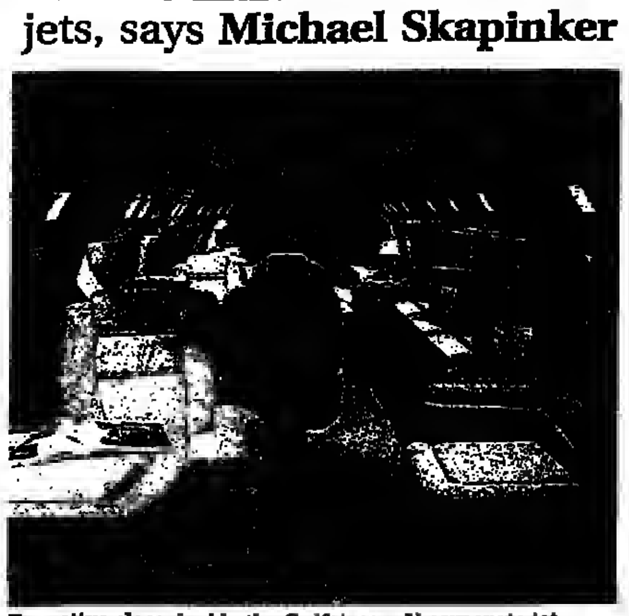
Mr Richard Santulli, chairman of Executive Jet, a US organisation which helps companies club together to buy aircraft, says: "Smart people have airplanes. The stupid people are the ones with money who still wait in line at the airport."

An increasing number of companies recognise the value of having their own jets, the aircraft-makers say. About half the buyers are in the US, but the manufacturers say that at last week's Farnborough air show in the UK they received inquiries from potential buyers in Europe and the Middle East.

South-east Asia is the most promising market, says Mr Bill Boisture, president of Gulfstream Aircraft of the US. "South-east Asia combines the tremendous creation of wealth with long distances," he says.

Companies which want to buy corporate jets will soon have a bigger choice. Three new jets are coming on to the market over the next few years, all boasting the ability to fly further, non-stop, than corporate aircraft have flown before: New York to Tokyo or London to Singapore.

The first, the Gulfstream V, is at present undergoing flight tests. Mr Boisture says he has 65 orders for the aircraft, which can carry up to 19 passengers, with deliveries to begin next year.



Executive class: inside the Gulfstream V corporate jet

The Gulfstream V's nearest competitor, the Global Express, was unveiled in Toronto last month by its manufacturer, Bombardier of Canada. Bombardier says it has more than 50 orders for the aircraft, which is due to go into service in 1998.

A bigger competitor will be the new long-range Boeing 737s, which are being produced by a joint venture between the US companies Boeing and General Electric. Mr Borge Boeskov, president of the venture, says eight customers have already put down deposits for the aircraft which will carry between eight and 50 passengers.

Operating costs will be higher than for its two rivals, but the Boeings will have much more cabin space and will cost between \$35m (£22.6m) and \$40m each – only slightly more than the Gulfstream V and the Global Express.

How can companies, many of which have dismissed thousands of employees in the past few years, justify the expense, particularly when many of their remaining staff are now relegated to the economy section of scheduled flights?

The manufacturers argue that leanly staffed companies are precisely those which need corporate aircraft. Companies now have fewer senior executives, and they cannot afford to spend their time waiting for connecting flights.

Mr Michael Graff, president of Bombardier's business aircraft division, says chief executives based in New York or Chicago might find they can travel easily on scheduled flights. But for companies based in cities with fewer flight connections, getting around on scheduled flights takes far longer. The chief executive of a retail company with its own corporate jet can visit 13 stores in a day.

Another reason companies are buying jets, the manufacturers say, is that many are doing business in new markets, such as China and the former Soviet Union, where scheduled air travel can be unsafe. Mr Boisture says he has customers who fly to remote parts of the former Soviet Union in their corporate jets and live in them while they are there.

Nevertheless, for \$35m an executive could make return trips between New York and London on British Airways' Concorde every day for 12 years, or fly business class between the two cities every day for 20 years.

The Washington-based National Business Aircraft Association suggests many companies are still resisting the idea of buying corporate jets, even those which can be purchased for less than the new long-range aircraft. Annual sales of new business jets worldwide peaked at more than 500 a year in 1981. In spite of the arguments of the manufacturers, the association says sales of new jets have been stable at between 200 and 250 annually for more than a decade.

Mr Santulli of Executive Jet, however, argues that these figures hide the true popularity of business jets. Unlike computer equipment, which is discarded after a few years, business aircraft fly for decades. All those sold during the 1980s are still being flown, he says, either by their original owners or by second-hand buyers. New corporate jets merely add to an already substantial fleet. In the US, the association says, there are nearly 6,000 corporate jets.

Mr Santulli, a former executive at Goldman Sachs, the US investment bank, 10 years ago came up with the idea of "fractional ownership" of corporate aircraft. Companies reluctant to buy a complete aircraft can buy a share of a jet instead, along with an annual number of flight hours.

Mr Santulli manages a fleet of 75 aircraft on behalf of 500 owners and has just started offering fractional ownership in Europe. He plans to add up to 20 aircraft, both large and small, to his fleet annually for the next five years.

He has doubts about how many companies will buy the newest generation of large jets outright. He says: "There are people who will buy them, but it will be a niche market. How big will the market be? I don't think even the manufacturers know."

LETTERS TO THE EDITOR

Meltdown danger for investment managers

From Mr David G. Wallace.

Sir, Because I am responsible for looking after investments for clients I have built up a source of cuttings to which I refer regularly in the hope that this will help me avoid mistakes which others have made. One such cutting was an article from the Financial Times of November 27 1994, under the heading "The Icarus Syndrome". In this, John Train, the chairman of Montrose Advisers, explained why hot investment managers usually melt.

That article may or may not be produced again and therefore, in an attempt to help the private investor, I have re-quoted below three parts which I highlighted almost two years ago and seem strikingly relevant today:

● "to go on achieving prodigious results, they assume increasing risks, skating on thinner and thinner ice. Eventually, it must break . . ."

● "Nothing exceeds like success – so the collapse, when it comes, is devastating . . ."

● "After enough success, one fancies oneself God-like . . ."

His final quote from La Fontaine struck a particular chord with me, and I think every investor should take note of it: " . . . every proud victor works his own undoing". Let's hope there are not too many others whose wings will melt like Icarus; somehow I suspect there are, simply because fund managers are human and that is why proper checking systems will always be necessary.

David G. Wallace,
Portfolio & Pension Management,
4 Redwood Crescent,
Peel Park Campus,
East Kilbride, UK

Eco-label serves a real purpose for consumers

From Mr Jerry Rendell.

Sir, Stefan Kay's criticism of the EU eco-label scheme (Letters, September 3), comparing it unfavourably with the Environmental Management and Audit Scheme (Emas), misses the essential point. The purpose of the eco-label is to give consumers information, at the point of sale, about products which have a reduced impact on the environment. Emas is a site-based scheme and gives no information to consumers. The two schemes are not in competition, they are complementary.

Your original article ("Eco-label scheme upsets paper makers", August 26) quoted an industry spokesman as complaining that the eco-label scheme was elitist. It is elitist in the sense of setting high standards but there are no "arbitrary quotas" as Mr Kay suggests. The only limit on the number of products which can be awarded labels is that they must meet the environmental criteria.

The Paper Federation's attitude towards the eco-label scheme is disappointing. In response to evidence given before the House of Commons environment select committee earlier in the year, the chairman of the committee suggested that the industry was "sulking". Despite the attitude of the federation, two UK brands of toilet paper and kitchen rolls (Co-op and Nouvelle) already have the eco-label. Others are likely to follow. There is also considerable interest in the criteria for copying paper. We hope that more manufacturers will take the opportunity to help their customers to make the right environmental choice.

Jerry Rendell,
chief executive,
UK Ecolabelling Board,
Eastbury House,
30-34 Albert Embankment,
London SE1 7TL, UK

Organising role in union

From Mr Ken Fuller.

Sir, Robert Taylor's article on the inspiration provided by the organising strategies adopted by US trade unions ("The state of the unions", September 2) claims that no British union has "staff wholly concerned with organising".

Not so. In the South East and East Anglia Region of the Transport & General Workers' Union, we have seconded two officers to organising work for the past three years.

More recently, we have appointed a senior organising assistant and, since July 1 this year, have employed two women recruiters. These, along with a further member of staff to provide administrative support, make up our organising support unit.

At the same time, we have trained 150 lay members in the techniques of recruitment and organisation. The other seven regions of the T&G are taking similar steps.

While we do not claim to have yet perfected our strategy, the results are encouraging. In the June quarter this year, our region increased its dues paying membership by 1,644 (1 per cent).

Ken Fuller,
regional organiser,
South East and East Anglia,
Transport and General Workers Union,
"Woodberry"
218 Green Lanes,
London N4 2HB, UK

Same long-term picture

From Mr Christopher Johnson.

Sir, In your leader, "French woes" (September 5), you say: "Over the six years to the second quarter of 1996 the economy expanded at an average of 1.2 per cent a year." This is exactly the same as the rate of growth of the UK gross domestic product over the same period.

There are two main differences. British growth was more variable than French, with a deeper recession in 1991-92, and a stronger recovery in 1993-94. Ths timing of the British cycle was earlier, with the low point in 1991 compared with 1993 in France.

Economic policy in both countries is open to criticism. Let us not delude ourselves that ours is decisively superior to theirs over the medium or long term.

Christopher Johnson,
chairman, British section,
Franco-British Council,
47/49 Strutton Ground,
London SW1P 2HY, UK

Average French economic growth over the six years to the second quarter of this year was 1 per cent, not 1.2 per cent, because growth in the latest 12 months was 0.3 per cent, not 1.2 per cent. Corresponding adjustments apply to the leader of September 6, "Reforming Germany": French average growth over the past five years was 1.1 per cent, not 1.3 per cent – Editor

Bernard Simon on the human pressures changing Banff

In the way of the wildlife

ON THE BEATEN TRACK

William van Horne, the railway pioneer, said: "If we can't export the scenery, we'll import the tourists," when Canadian Pacific opened its transcontinental line through the Rocky Mountains in 1886.

A wilderness no more: carriage rides for Banff's tourists

Van Horne's prescription for attracting wealthy visitors has turned out to be more successful than he could have imagined. Banff National Park – which straddles the Canadian Pacific track – now draws some 4m people a year to its breathtaking mountains, turquoise-coloured lakes, and profusion of bears, wolves and other wildlife.

But the influx has triggered an emotive debate. Can a wildlife sanctuary withstand such a human onslaught? Should the number of visitors be limited and, if so, how? What can be done to protect the animals, fish and plants?

The concerns are not limited to fringe environmental groups. Mr Charlie Zinkan, the park's superintendent, says: "We recognise there are stresses, and we want to deal with them."

Concern centres on the town of Banff, which lies among mountains and forests just inside the park's eastern boundary. Signs on the town's access road warn of moose crossing. But visitors strolling down Banff Avenue can be excused for not taking the warning seriously.

The traffic would do justice to a busy city suburb. So would the shops, which include outlets of Polo Ralph Lauren, The Body Shop and Allders duty-free. About 40 hotels plus numerous bed-and-breakfasts have sprung up in Banff and Lake Louise, a 45-minute drive away.

Canadian Pacific's sprawling 830-room Banff Springs Hotel, built a century ago to save hauling heavy dining cars over steep mountain passes, boasts a new conference centre, and has applied to extend its golf course by another nine holes to 36 holes. Although Banff has a permanant population of only 6,500, its sewage system is designed for 45,000.

"To turn a national park into a shopping mecca is a perversion," says Mr Michael Going, chairman of the local branch of the Canadian Parks and Wilderness Society. "We believe people should be going [to Banff] to appreciate nature. But if you give them golf courses and convention centres, they'll go for that."

Humans have also left an indelible mark in more remote areas of the 6,650 sq km park. Three ski resorts lie between Banff and Lake Louise. And at some mountain lakes so many tourists have been destroying fragile lichen and wild flowers that the park authorities have been obliged to build paved walkways.

Mr David Schindler, a University of Alberta biologist, says efforts to turn Banff into an angler's paradise have had unintended results. Fish introduced into lakes have eaten and eliminated some species of insects and crustacea. The park's only indigenous fish, the Banff long-nosed dace, has disappeared.

The park's wildlife was dealt a tough hand from the start. The town of Banff was established 150 years ago in a place that scientists now realise is a junction of prime migratory and feeding corridors for animals.

Since the park's inception, it has been bisected by the busy Trans-Canada highway – at present being widened to four lanes. Tight entry restrictions that protect many other wildlife sanctuaries are thus not an option for Banff.

In spite of past mistakes, the future may not be as bleak as pessimists believe. Developed areas still cover only 1.5 per cent of the park. Banff's town boundaries are set by law, and no new hotels or ski resorts will be allowed. Any other development must pass an increasingly stringent approval process.

Existing hotels will add about 300 beds this year, but the scope for further expansion is dwindling. Mr Dave Day, a former parks superintendent who now works as a consultant to local businesses, estimates that the three ski resorts have reached about 75 per cent of capacity.

A committee of experts is expected to propose further curbs on development and measures to protect wildlife in a widely awaited report due to be published next month.

Conservation efforts have already been stepped up. The latest stretch of the Trans-Canada highway to be widened includes several 50 metre-wide animal overpasses. "There are more people and more large animals than have ever been here before," Mr Day says.

Park officials hope the curbs on new accommodation will impose a ceiling on the number of visitors. In an effort to balance the summer rush with more winter visitors, the Banff and Lake Louise Tourist Association devotes more than 60 per cent of its promotional efforts to the ski season, extending from early November to early May. And Parks Canada is trying to lure people away from the most crowded parts of the park as part of what it calls "demand management". Its publicity material increasingly promotes the less-travelled parts of Banff, and other, less popular parks nearby.

Limiting facilities inside the park, however, has raised new issues. With development in Banff at a near-standstill, a building boom has erupted in villages just outside the park boundary. That could push up the number of day visitors, as well as posing an environmental threat of its own.

One aim of the "demand-management" policy is to avert the logical consequence of demand for accommodation exceeding supply: sharply rising prices. Even now, a modest motel room in Banff costs C\$120 (£56) a night in the summer season. House prices in Banff are comparable to those in Toronto and Vancouver.

The concern is that accommodation in the park will soon be accessible only to the well-heeled tourists that van Horne and Canadian Pacific had in mind a century ago.

This is the ninth and last in a series on the places changed by mass tourism

FINANCIAL TIMES

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Monday September 9 1996

Reality dawns in Tralee

Those brave souls who still expect the European Union to make a big stride in political integration next year will have found the weekend meeting of foreign ministers in Tralee a salutary spectacle.

Just a month before a special summit of EU leaders to discuss institutional reform, substantive discussion of the issue was notable by its absence. Instead, ministers paraded their differences on the main international question of the moment – last week's US action against Iraq – and underlined again how far the union is from a plausible common foreign policy.

There may be a positive aspect to this. Member states' foreign policy divisions, after all, represent genuine limits on collective action which no amount of institutional tinkering can disguise. And here lies e broader lesson about Europe's current intergovernmental conference (IGC) set up to review the Maastricht treaty. The EU is most unlikely to be able to agree on big constitutional changes now. It should therefore keep the agenda it attempts *to a strict minimum. Unless it* does so, it risks being bogged down for the foreseeable future in acrimonious and fruitless institutional debate.

That a more ambitious agenda is almost bound to fail is not due solely to British recalcitrance – although until next year's UK election, and quite possibly beyond, that will be a sizeable obstacle. It also reflects broader European realities.

Single currency

There is no very broad-based public appetite for a further extension of the union's competences at a time when most governments are preoccupied with the effort to comply with the fiscal and economic criteria required under Maastricht to construct e single European currency. Trying to secure ratification of controversial institutional changes at the same time as member states pant towards the finishing line would impose intolerable strains on their political fabric. That in itself is a powerful argument for keeping the IGC simple and wrapping it up as soon as possible.

There is a more fundamental argument why this is not the time for a big institutional shake-up. The EU's future shape will be profoundly influenced by the fate of economic and monetary union. If Emu happens, its consequences – for political integration among participating states and for relations with those outside – will inevitably demand another constitutional review early next century.

Lacking in focus

EU leaders thus need to think hard in the next three months about what they are trying to achieve in this IGC, and then set out the measures they consider strictly necessary to achieve it. Previous reforms – the Single European Act in the 1980s, Maastricht in the early 1990s – were framed with clearly defined objectives in view. The current review, by contrast, has been woefully lacking in focus.

It need not be thus. Apart from *Emu*, the single biggest challenge facing the union is embracing new member states from central and eastern Europe. The IGC's overriding aim should be to prepare for enlargement.

That means, at a minimum, taking the first steps towards streamlining European decision-making and institutions – perhaps through relatively modest changes to voting weights and e reform of the Commission. It may also mean starting to define how a larger EU could be made to operate more flexibly – with some member states proceeding more rapidly than others towards political integration – though achieving e workable framework for this "variable geometry" will be difficult in the extreme.

If the two forthcoming Dublin summits manage articulate and realistic debates on these issues, then the EU will at least have a route map out of its current muddle. If not, prepare for a worsening political crisis next year.

Tax cuts going cheap

Who will buy my tax cuts? Big ones! Small ones! Half-baked or cooked by experts! The traditional London street cries of election time have begun early this season, as Conservative and Labour parties set out their wares before the party conferences. Although polling day is not expected until May, it is already clear that income tax cuts will generate much noisy abuse among the vendors of party policies.

Last week, Mr Tony Blair, the Labour leader, opened his campaign by reaffirming that he wants a starting rate of income tax of 10 per cent. The yells of derision from the opposing hustings were sadly predictable. Mr Blair was not only stealing his rivals' clothes; he was trying to sell them cheap. "It will cost £8bn," the Tories cried. "Nonsense. Much less," Labour retorted.

The truth is that the cost to the exchequer of introducing a 10 per cent tax band depends entirely on the width of the band. The Tories' counter-offer of a 20 per cent basic rate of tax might also cost about £8bn, with the same proviso. Both offers are almost worthless without a completion date.

Both sides know that the government's finances have deteriorated sharply, partly because of disappointing revenues. The Treasury expects this year's public sector borrowing requirement to be £27bn. This is £11bn more than it forecast a year ago, and hangs heavily over any possibility of tax cuts. After five years of tight control of public spending, significant cuts would now require unpopular reductions to services. So after the election, it is at least as likely taxes will need to rise as to fall.

Knockabout rhetoric

There are thus dangers in the knockabout rhetoric of phoney tax offers – and not just in the UK. Tax cutting is proving a potent campaign slogan in the US elections. And in France last week, Mr Alain Juppé, the prime minister, announced FFr75bn (£9.5bn) of income tax cuts despite his government's painful efforts to reduce its budget deficit.

In the UK, income tax cuts remain a particularly emotive issue, partly, no doubt, because of the folk memory of marginal rates above 90 per cent. The controversy also reflects the Tories' success in convincing voters that they should be given more discretion as to how their earnings are spent.

Popular sentiment

Cutting income tax is an obvious way to achieve this. But a narrow focus on this form of tax obscures uncomfortable realities. In a modern democracy, the total burden of taxation is extremely difficult to cut. Britain's Tories have signally failed to achieve their aims in this respect.

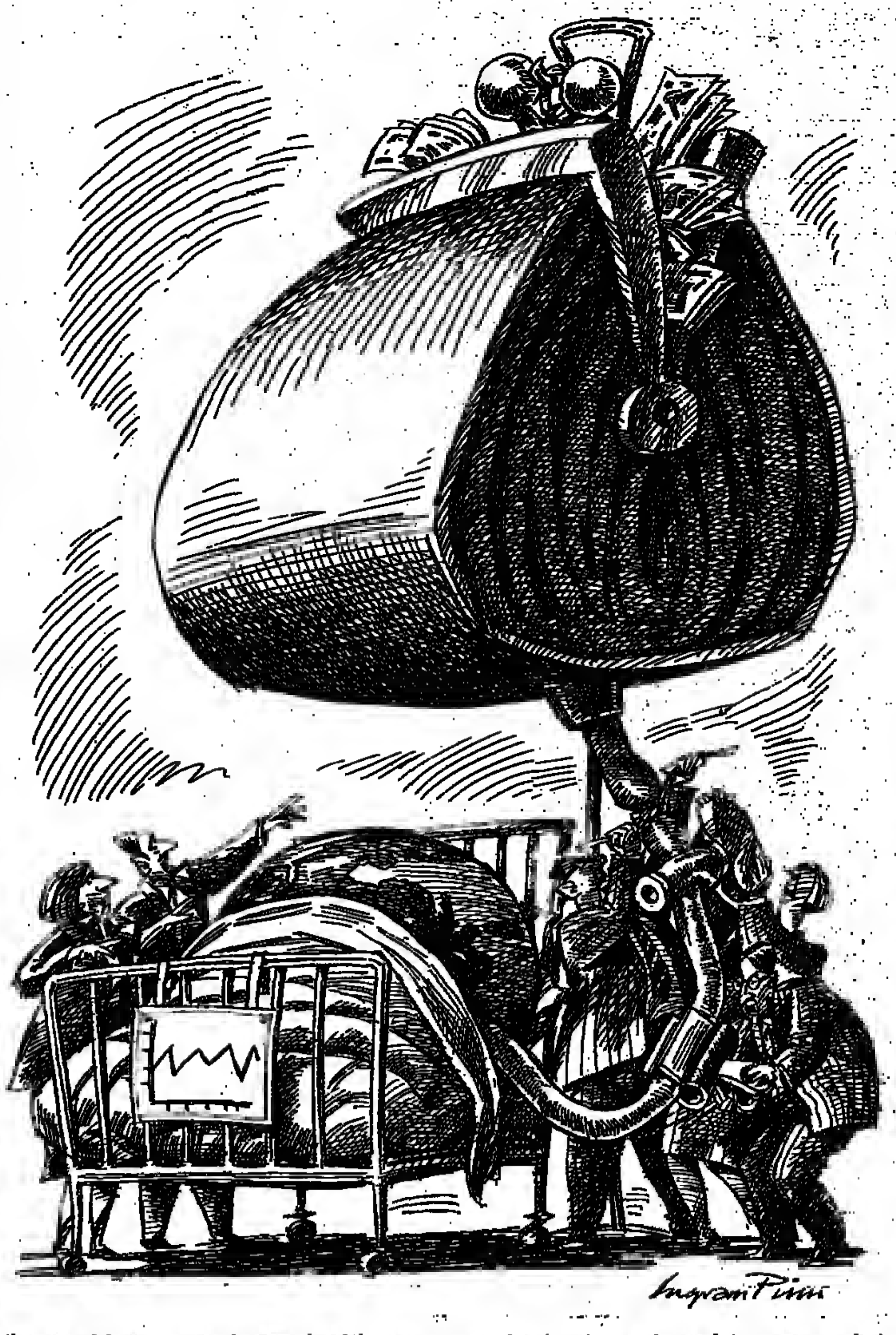
The burden of income taxes has indeed fallen – from 32 per cent of government receipts in 1979, when the Tories came to power, to 27 per cent now. But this is less than half the story. All taxes and national insurance contributions (excluding those from North Sea oil) now represent 36 per cent of national income, slightly more than in 1979. In the next few years the proportion is expected to increase.

The dangers of focusing popular sentiment on income tax cuts are twofold. First, the parties may get into a bidding war, resulting in promises which the victor cannot or should not keep, or an imprudent Budget in November. Second, as many developed countries now find to their cost, a narrow concentration on tax cutting fudges the simple truth that the public services which voters want must be paid for. Deficits cannot progressively fill the gap.

Public attention needs to shift, then, to the structure of taxation: whether, for example, a further move from direct to indirect taxes would be desirable and how the system could be changed in order to provide more sensible economic incentives. During the 1980s, the Tories made respectable efforts to address such questions. Both party leaders should be building on those, rather than exchanging raucous and vapid slogans.

The managed care remedy

Mark Suzman asks if savings from global healthcare reforms will prove enough to relieve the pressure on public finances



Few phrases strike more terror into the hearts of modern politicians than "healthcare reform". It blighted the first half of the Clinton presidency in the US and still haunts governments from the Netherlands to New Zealand which have tried to overhaul their health services over the past few years.

Nevertheless, growing pressure on public finances is forcing countries from Germany to Japan to make savings in their fast-rising healthcare bills. Even President Clinton, despite the failure of his attempt to introduce compulsory health insurance, has just approved legislation designed to broaden private health cover.

But after more than e decade in which the focus has been on restructuring health systems, the emphasis is changing. Increasingly the drive is for reforms that encourage doctors and nurses to choose the most economical form of treatment rather than tinkering with the systems within which they operate.

"While governments have found that big changes to introdnce market mechanisms in health systems have had some success, costs have still risen," says Dr Mikko Vienonen, health services management adviser for the World Health Organisation's European office. "The focus has now changed from how to *finance healthcare to how to* manage the delivery of it better."

Spending on bealthcare has doubled as a percentage of gross domestic product over the past 30 years in the industrialised countries of the Organisation for Economic Co-operation and Development. It now averages nearly 9 per cent of GDP and the growing costs of treatment mean it is still rising. For example, the British Medical Journal reports that the cost of a course in statins, a drug that reduces deaths in patients with coronary artery disease, could cost $541,500 (£345,366) a year.

Yet the public expects a rising *standard of medical care.* In economic terms, healthcare is regarded as a "merit good": as people become wealthier they are prepared to spend proportionately more on healthcare. So health spending tends to rise faster than GDP. More pertinently for politicians, this also means that any attempt to restrict the treatments available tends to be furiously resisted.

The real problem for governments is that most of the cost of healthcare is borne not by individuals but by the state – funded either by general taxation (as in the UK and Sweden) or compulsory insurance (as in Japan, Germany and the Netherlands). Even in the US, which relies most heavily on private insurance, pnblic medical programmes for the poor and elderly now consume a rising proportion of the federal and state budgets.

With pressure growing to keep a tight rein on public spending, health is an obvious target for *savings. But, as a recent OECD* study concludes, these have been difficult to achieve: "Without more fundamental reforms . . . tax increases or service cutbacks appear unavoidable."

To reduce costs, most governments have begun to put pressure on individuals to shoulder a greater share of health costs. For example, patients are increasingly required to contribute to the cost of drugs, or pay charges for the use of hospital beds. More people are also taking out private health insurance, usually citing declining standards in the publicly provided services.

Other measures have been taken to control spiralling expenditure on drugs. Most countries have now introduced measures to encourage doctors to prescribe cheaper "generic" drugs rather than more expensive brand-name products when appropriate. They have also reached deals with big pharmaceutical companies to curb price rises.

These have had some effect: in Germany, for example, annual *rises in the cost of drugs* have fallen to below 7 per cent, after rising by more than 10 per cent every year in the 1980s.

Still more important have been the attempts to make healthcare systems much more efficient, using techniques that have come to be known as "managed competition". This approach aims to introduce market-type incentives to stimulate the managers of healthcare organisations' systems – which are often monopoly suppliers in their areas – to cut costs.

The most striking examples of such changes have been in countries thet fund healthcare directly through tax revenue. Both the UK and New Zealand have created "purchasers", publicly funded health authorities thet commission healthcare services from "providers" such as hospitals and other treatment centres, which are free to compete for business. "There is no doubt that the reforms have led to efficiency improvements although these have not been as great as those in other service industries over the past 10 years," says Mr Kingsley Manning, director of Newchurch & Co, a UK health sector consulting group.

Countries which rely predominantly on compulsory, independent insurance funds are now adopting a similar approach. In the Netherlands and Germany health insurance funds which mostly used to cover people in particular industries have been actively encouraged to compete for business elsewhere.

However, many countries are now moving beyond managed competition in the search for savings. The new buzzword in heathcare reform is "managed care", a broad, loosely connected range of health management reforms designed to make treatments more cost-effective.

"The move to introducing market-type reforms is slowing," says Mr Chris Ham of the Health Services Management Centre at the University of Birmingham. "Such convergence as there is in health policies now is towards attempts to influence the working patterns of practitioners directly."

The new epproach bas been pioneered in the US in an effort to curb its bloated healthcare costs – at 14 per cent of GDP by far the highest in the OECD. The comprehensive private insurance which covers most Americans pays the full cost of all treatment – encouraging hospitals and doctors to approve a wide range of expensive, often unnecessary, tests and treatments.

In an effort to cut the premiums for their employees' health insurance, US employers have turned to "health maintenance organisations". These private companies control costs by combining the functions of insurers and treatment providers. Although they offer a guaranteed level of care for members, they use their control of treatment providers to restrict access to doctors, drugs and hospitals. This allows them to manage all aspects of health delivery from prescription patterns to hospital bed usage and charge fees below standard insurance premiums.

To avoid incentives for overtreatment, most health maintenance organisations employ their doctors on fixed salaries, often with performance incentives for keeping treatment costs to a minimum. They also require patients to see family doctors before getting an appointment with more expensive specialists to screen out unnecessary expense.

The organisations cover abont a third of US patients and have been successful in curbing costs. Latest US government estimates show total health costs rose only 6.4 per cent in 1994, the lowest rise since 1960 – a slowdown largely attributed to the spread of managed care techniques.

"Managed care has been very successful in the US and has some lessons for other countries," says Dr Josep Figueras, a lecturer at the London School of Hygiene and Tropical Medicine and co-author of a new WHO study on European health reforms.

Not all of these changes are completely new. The use of family doctors as gatekeepers for access to more specialised services has long been the cornerstone of the UK's relatively cheap National Health Service. But the principle of developing new ways to monitor and manage patients and doctors within hospitals and medical practices directly is gaining popularity internationally.

The WHO study concludes that the reason for this spread is that the broad supply-side measures that comprise managed care are now the policies "most likely to achieve social and economic success" in health reform.

But as Mr Robert Maxwell, chief executive of the King's Fund, a London-based health policy think tank, points out, the trend of health spending is inexorably upwards. Even the savings brought by managed healthcare may prove insufficient to sustain public healthcare systems.

"To some extent, the managed care changes may be less a sign of convergence than desperation," he observes. "For the moment we don't really know if managed care works or not in the long term, and all the discussion distracts from the more pressing issue of deciding how best to spend the money that is available – the rationing problem."

Nevertheless, it seems likely governments will focus on finding further efficiencies while tacitly encouraging more private provision. For if there is one word that politicians dread being attached to healthcare in the pnblic mind even more than "reform" it is "rationing".

· O B S E R V E R ·

Clash of Cultures

Great media excitement in Sweden over a rare, verbal and very public battle between Hakan Mogren, chief executive of pharmaceutical company Astra, and the country's sharp-tongued culture minister, Marita Ulvskog.

The unedifying exchange of fire began late last month when social democrat Ulvskog used a TV studio debate to attack Mogren's recent award of bonus-related share options. Having cited him as the latest example of a new greed and "swinishness" which was setting the nation a bad example, she went on to blame private business for the slump in morals that has triggered a recent flurry of corruption scandals in social democrat-controlled local government.

Mogren, thought to be Sweden's highest paid industrialist with an annual pay packet close to £1m, hit back in a newspaper article accusing Ulvskog of behaving irresponsibly. In turn, Ulvskog accused Mogren of seeking to suppress freedom of expression, alleging that it was offensive to accept huge share options at a time when Astra had reported "disappointing" figures.

The unedifying brawl has just taken its latest twist, with Mogren declining to meet Ulvskog in a head-to-head radio debate. The refusal prompted Ulvskog, a former newspaper editor, to accuse her adversary in a half-page article, of "immense cowardice". Mogren, one of a group of a dozen or so top Wallenberg family lieutenants who sit on the boards of each other's companies – a system dubbed "criminal" by Ulvskog – has returned fire with another newspaper article in which he defends incentives for business leaders. Sweden waits to see who throws the next punch.

Popping in

■ If you think a polite but firm invitation to explain yourself to the Italian stock market regulator offers few opportunities to score style points then think again.

Renzo Francesconi has just managed to pull off the appointment with characteristic Italian flair, following a request from Consob, the Italian watchdog, to justify his interesting little claim that Olivetti's interim results were misleading.

Francesconi resigned his post as director-general of the computer group's holding company on Wednesday all of six weeks after joining and provoking a temporary suspension of the company's shares. His claims that the real figures were much worse than the published results forced Olivetti's chief executive to deny the allegations and hint that Francesconi was probably stressed out.

No sign of that, however, when the former executive turned up for examination at Consob's Rome headquarters in chipper form on a flashy little motor scooter. "Do I really look stressed?" he quipped to the waiting paparazzi before happily puttering off into the sunset, as carefree as Audrey Hepburn and Gregory Peck aboard their Vespa in *Roman Holiday*.

Clever move

■ One part of the United Nations machine clearly does not give a fig for UN budget crises. The World Intellectual Property Organisation, the UN body that looks after various international treaties on patents and copyright, plans to build itself a stylish and expensive new building right next to its existing headquarters in Geneva's leafy UN district.

The Clinton administration, especially keen in election year to stay ahead of Republican charges of UN extravagance, finds the idea a bit much to swallow with Daniel Spiegel, US ambassador in Geneva, calling the grandiose plan "unacceptable and indefensible".

Spiegel hopes to squash the idea at today's joint meeting of Wipo's budget and premises committees and claims Geneva is awash with empty office space available on reasonable terms. But Wipo thinks differently and is not even going out to competitive tender on the project, planning instead to award the contract to Steiner, the Swiss contractor that owns the land in question.

Nor is Washington placated by the fact that Wipo intends to use its "own money" from international patent fees for the project – given that more than 40 per cent of the fees are paid by US companies and individuals. Critics say this are in any case too high, judging from the large and mounting kitty which Wipo is stashing away.

The US accepts Wipo's need for more space to accommodate its rapidly expanding patent-filing activities. But Spiegel insists that "an extravagant new building flying the UN flag would send absolutely the wrong signal at a time of financial crisis in the United Nations system". Wherever Wipo ends up, Washington thinks it should cut its fees. Or maybe the rest of the UN should just get a slice of the action.

Financial Times

100 years ago

News From Rhodesia

News from Rhodesia shows that already prospectors are astir. They are acting on the principle that the early bird catches the worm, and most of us can afford them a friendly hope that they may not catch a stray bullet or assegai instead. Prospectors have gone out east into the country in the neighbourhood of the junction of the Sabi and Lundi Rivers to locate alluvial claims. We may not witness Rhodesia settled as a whole for many months to come, but it looks like better times in the more accessible districts.

50 years ago

Season on Wall St.

One factor in Wall Street's season of nervousness last week was a return to the recurrent fear that the post war sellers' market, when everyone can sell whatever he can make, was nearing its end. Obviously this was premature: there is still a vast amount of re-stocking to be done in the world as a whole. But the sellers' market, after all, cannot last for ever. There will be a time, not so very far distant, when the main determinant of the volume of British exports will be the relative prices of British goods. When that time comes, our chief competitor will be the United States.

FINANCIAL TIMES
Monday September 9 1996

Iraq-backed Kurds take towns near rival base

By John Barham in Ankara, Lionel Barber in Tralee and Nancy Dunne in Washington

Kurdish forces backed by Iraq yesterday took two strategic towns in northern Iraq, threatening the city of Sulaimaniya, the region's biggest town and stronghold of Mr Jalal Talabani, leader of the Patriotic Union of Kurdistan (PUK).

Diplomats monitoring the situation from Turkey said they feared a refugee crisis could develop. The PUK said thousands of people were already fleeing.

Last week, top members of the pro-Iraq Kurdistan Democratic Party (KDP) said an assault on Sulaimaniya was "not in our programme". Diplomats say the KDP may be attempting to secure power supplies from a nearby hydro-electric scheme for Arbil. Power was cut to the city on August 31, when with Iraqi help it fell to the KDP, causing a water shortage.

US officials portrayed the turbulence in northern Iraq as a civil war in which the US wanted no part and said they had no evidence Iraqi troops were involved in the latest fighting.

Meanwhile, Mrs Tansu Çiller, Turkey's deputy prime minister, said Ankara planned to install electronic systems along its southern border with Iraq to enforce a "security zone" 10-25 kms into Iraqi territory to halt Kurdistan Workers Party (PKK) incursions.

She said the systems would make a permanent Turkish military presence unnecessary. Turkish officials have said people living within the proposed zone would have to be evacuated and offered compensation.

Mr Safeen Dizayee, Ankara representative of the KDP which controls the Kurdish enclave's northern sector, said Turkey has not told his group how the zone will operate. Although villages and farmland would have to be evacuated, the KDP does not oppose the plan.

But Iraq warned Turkey against going ahead with its plans to set up the security zone. "We will take every necessary action in our part to prevent it," said Hamed Youssef Hummadi, head of the culture and information committee of Iraq's parliament.

The Turkish plans also drew a strong reaction yesterday from Arab states. In Syria, a ruling Baath party newspaper said Turkey's move was under "pretexts entirely unrelated to reality" and warned it would damage relations.

Egypt, comparing the Turkish move to Israel's self-styled security zone in southern Lebanon, said it would seek United Nations Security Council discussions on the matter. The Gulf Co-operation Council, grouping Saudi Arabia, Bahrain, the United Arab Emirates, Oman, Kuwait and Qatar, also called on Iraq's neighbours to cease interfering.

Britain and France bickered over policy toward Iraq, at a meeting of foreign ministers in Tralee, Ireland, intensifying divisions within the EU over how to respond to last week's US military strikes.

Fallout from US strike, Page 4

Exchanges back fight against US fraud law plan

By Christopher Parkes in Los Angeles and agencies

Leading US stock exchanges have given more than $500,000 to back a campaign against a Californian initiative to make it easier for investors to sue for securities fraud.

The contributions, which bolstered the fighting fund to more than $5m, illustrate anxiety outside the state that the measure – Proposition 211 – may be approved in November's popular vote and pass into law.

The measure would in effect nullify in California recent federal legislation to reduce "frivolous" litigation by making it harder for individual investors to sue.

Under one provision a shareholder could make a fraud claim following a sudden drop in a company's share price.

Opponents fear the extreme volatility of high-technology stocks could put the whole sector at risk of constant harassment in the courts. "If enacted, this would decimate Silicon Valley," according to officials at Nasdaq, which gave $250,000.

Opponents also fear California would become a launch point for legal actions against companies based outside its boundaries. The state's reputation as a policy trend-setter has also heightened tension. Other Californian initiatives copied elsewhere include the "three-strikes" laws which automatically condemned three-time offenders to sentences of 25 years to life.

The contributions mark a further success for the American Electronics Association, a lobby group embracing most of the state's high-technology companies in Silicon Valley.

It has already won the support of President Bill Clinton, anxious for industry's backing, and Republican presidential candidate Mr Bob Dole.

The initiative's supporters, grouped under the banner of the Congress of California Seniors and Citizens for Retirement Protection and Security (CRPS), attacked the exchanges' intervention. It noted that about $3.6m of the $5.2m fighting fund came from "the east coast and other out-of-state" financial interests.

Backers of the CRPS include the state Democratic party, Calpers, the public employees pension fund – the biggest of its kind in the US – and about 100 consumer groups.

Even before it was formally launched, Proposition 211 was one of the most popular initiative suggestions of recent years. It attracted more than twice the number of signatures necessary for it to be placed on the November ballot sheet in the first place.

Banks deal

Continued from Page 1

two years, and to have had average monthly outstanding loans of $100m for the previous year. Mr Di indicated that China's negotiations to enter the World Trade Organisation were a factor in the decision to permit foreign banks to trade in local currency. Under WTO rules, Beijing would be obliged to further open its financial services to foreign competition.

He also said Beijing would soon approve a new batch of foreign bank branches in the capital. Five were approved last year, including Citibank and Hongkong and Shanghai Banking Corporation. Another three have been approved this year – First Chicago, Australian and New Zealand Bank and the Korean Exchange Bank. Other institutions under consideration include Bank of America.

Okinawa

Continued from Page 1

general election soon after that meeting. Normally, an election would take place next summer.

Yesterday's referendum is the climax of the latest surge of islanders' resentment, which was triggered by the rape of an Okinawan schoolgirl last September, for which three US servicemen were convicted.

Mr Ota responded by refusing to renew US leases, forcing Tokyo to obtain a supreme court ruling against him last month.

French companies urged to improve readiness for Emu

By Gillian Tett and David Owen

Large French companies could face severe problems in 1999 unless they speed up their preparations for the planned introduction of the European single currency, a study sponsored by the French central bank and finance ministry warns.

The study, based on a survey of several large companies, found that most have not yet seriously considered the practical commercial impact of the euro, in spite of the government's determination that it should come into effect in 1999.

A report based on the study warns that companies' senior executives must become more involved. In many companies, any preparatory work for the single currency is being undertaken by junior and middle managers.

The report also indicates that the logistics of the three-year period for the switch to the euro are likely to be extremely complicated for the corporate sector.

In particular, it observes, big companies are likely to take different approaches to the use of the euro between 1999 and 2002. Some groups plan to use the euro immediately, and others want to delay until 2002, which could create severe difficulties for their banks, suppliers and customers.

The findings have emerged as part of a detailed study of 20 of France's largest companies, including France-Télécom, Renault, Rhône-Poulenc, Promodès and Electricité de France, for internal distribution within the Banque de France and the Ministry of Finance.

French officials insist that problems revealed in the report will be faced by all countries participating in Emu.

"We think this is the first study of its kind in Europe – this shows we are taking the problems seriously," Mr Benoît Jolivet, author of the report, said.

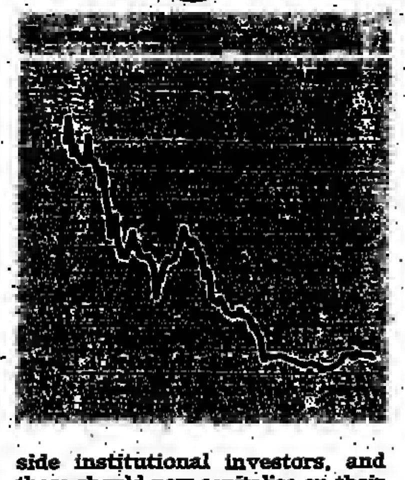
The findings have generated considerable concern in French business circles. The Patronat, the French employers' federation, has launched an information campaign to persuade companies to take the currency switch issue seriously.

In a detailed and strongly-worded document, entitled "Euro: the countdown has already started", the Patronat warns that it is "indispensable" for French companies to "start thinking now about the practical details of the euro's introduction".

It argues that the more planning companies do in advance of the currency's arrival, the greater will be the opportunities for keeping the costs associated with the change to a minimum.

THE LEX COLUMN

Lighting the gas



It is easy to make a case that Gazprom's promised international share placement will prove nothing more than hot air. The vast Russian company may indeed boast one third of the world's known gas reserves on paper. And it is doubtless true that if these reserves were ever as highly valued as those of Exxon, then Gazprom would be worth more than the entire London Stock Exchange.

The snag is it will probably take a decade of auditors wandering around Siberian bogs to work out how much gas is commercially recoverable – leaving aside what Gazprom's countless related factories, farms, banks and satellites are worth. Russian companies' balance sheets will start to read like descriptions of national life; Lukoil includes cattle in its assets. Gazprom also carries unquantifiable political risks given that its powerful government patrons may lose their grip. Alexander Lebed, the tough nut intent on invading the Kremlin, talks about renationalising Gazprom when he becomes president – or at least removing tax privileges, which would put a nasty dent in net income.

As ever, the deal will be determined by price. The worry is that Gazprom's more Soviet-minded directors still equate size with success and are looking for a superlative price. The more comforting thought is that even Gazprom cannot afford to burn international investors, given its future capital needs. Gazprom will have to raise billions more if it is to pip the Norwegians and Algerians to supply Europe's gas markets.

Olivetti

The recent ructions at Olivetti initially looked like a serious victory for shareholder activism in Italy, but they are rapidly descending into hollow farce. Olivetti may have parted company with its chairman, Mr Carlo De Benedetti, but it has retained the bulk of a board responsible for years of shareholder misery. Furthermore, the company is now caught in a bitter debate between current and former directors over the veracity of its accounts. Even if the accounts are "rigorously in order", as Olivetti stated on Friday, they are sufficiently opaque to mean that shareholders can get only a vague sense of the health of its businesses. Following last December's rights issue, Olivetti became controlled by outside institutional investors, and these should now capitalise on their voting power. The least they should demand is a more detailed set of accounts. These might confirm suspicions that Olivetti has kept its personal computer division afloat by dumping products on its services division instead. But this is a company which desperately needs to rebuild trust, and transparency is an obvious starting point.

Investors should also force the group to draw a clear line under its unhappy past. A number of independent non-executive directors should be appointed to a board which still contains several friends of Mr De Benedetti. The company appears badly in need of corporate checks and balances. Since Olivetti has shown no signs of wanting to promote change from within, investors should start imposing it from without.

Eurotunnel

Though Eurotunnel is likely to be silent on its refinancing talks at today's interim results, investors, as the share price indicates, appear to be drawing comfort from talk that any deal would leave the company's 225 banks with less than half of the equity. Even if that turns out to be the case, it is unlikely to remain so for very long.

At the moment Eurotunnel is balancing nearly £9bn of borrowings on a £1bn market capitalisation. The banks might be persuaded to swap £1bn to £2bn of their loans for up to 49 per cent of the equity. And Eurotunnel's cash flow should be able to service another £4bn of debt. But that would still leave £3bn to £4bn of borrowings outstanding. The most likely solution is for the banks to switch these into quasi-equity instruments like convertible bonds. In the short-term, the lower coupon on the convertibles would reduce Eurotunnel's interest bill. But if the company continued to do badly, even a smaller amount of interest would be a burden. And if Eurotunnel went on to do well, the shares would rise in price and the banks would convert, diluting existing holders. It is possible that Eurotunnel could insert a clause allowing it to redeem the bonds. But in that case, the banks would be likely to insist on a substantial premium. Either way they would skim off most of the cream. The upshot is that a mild improvement in Eurotunnel's business prospects would not be enough. They would have to be transformed *before* much value accrued to existing shareholders.

Morgan Grenfell

Around 60 per cent of the £300m cash resources of Morgan Grenfell's three troubled funds was passed on to selling unitholders in just two days. This begs the question of what happens if the money runs out. There are two ways in which investors in these funds could be hurt. Morgan Grenfell has already promised to cover any short-fall between the stated value of the funds and their genuine worth, removing one concern. The other is that a stampede of sellers forces the fund manager into a fire sale of assets to meet redemptions. This is a significant worry with these funds, given their heavy weighting in obscure and illiquid Scandinavian technology stocks. And it is the loyal investors who stood by Morgan Grenfell who would suffer, since the dumping of assets by the funds would reduce both their value and quality.

Morgan Grenfell could avoid such a threat. If it clearly states that it will buy any redeemed units, and hold them for perhaps three months, it will remove the threat of funds having to dump assets. No doubt, Morgan Grenfell is wary of promising to buy in a potentially enormous number of units. But if it makes this promise, it is less likely large numbers of investors will sell. And it can dispose of units later on, when the storm of controversy has subsided. Besides, unitholders are understandably nervous at present, having seen the value of the fund fall by 5 per cent in two days. If Morgan Grenfell allows s panic sale to proceed, the damage to its reputation will be sufficient to make the cost of any units look negligible.

FT WEATHER GUIDE

Europe today

The western Mediterranean will be unsettled. Eastern Spain and Tunisia will have heavy showers, many with thunder. Central and eastern parts of the Mediterranean will remain dry with sunny spells in Italy and Greece. It will be cool over central Europe with light showers, mainly in the afternoon. It will be wet over extreme eastern Europe and northern Turkey. High pressure north-west of Ireland will bring sunny spells and mainly dry conditions over the British Isles. France will have plenty of sunshine with occasional showers in the north. The Benelux will have some showers.

Five-day forecast

Over the next two days, strong high pressure will remain north-west of Ireland while low pressure will stall over the Baltic Sea. This will lead to fresh northerlies over northern and central parts of Europe. Eastern Spain and Italy will have heavy rain with thunder at times.

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum	Beijing	fair 26	Caracas	thund 32	Faro	fair 28	Madrid	rain 24	Rangoon	fair 32
	Celsius	Belfast	fair 18	Cardiff	fair 18	Frankfurt	fair 17	Majorca	shower 24	Reykjavik	cloudy 13
Abu Dhabi	sun 38	Belgrade	shower 15	Casablanca	fair 23	Geneva	sun 18	Malta	fair 27	Rio	fair 29
Accra	fair 28	Berlin	shower 15	Chicago	sun 27	Gibraltar	fair 24	Manchester	fair 17	Rome	fair 28
Algiers	shower 26	Bermuda	fair 29	Cologne	shower 17	Glasgow	fair 20	Manila	shower 34	S. Frsco	sun 24
Amsterdam	fair 18	Bogota	fair 18	Dakar	fair 30	Hamburg	fair 17	Melbourne	shower 15	Seoul	cloudy 27
Athens	fair 26	Bombay	thund 31	Dallas	sun 33	Helsinki	shower 14	Mexico City	fair 23	Singapore	thund 31
Atlanta	fair 33	Brussels	fair 17	Delhi	rain 28	Hong Kong	cloudy 31	Miami	thund 34	Stockholm	fair 13
B. Aires	fair 13	Budapest	fair 15	Dubai	sun 38	Honolulu	shower 31	Milan	fair 20	Strasbourg	cloudy 17
B.ham	fair 13	C.hagen	fair 15	Dublin	fair 18	Istanbul	shower 21	Montreal	cloudy 24	Sydney	fair 22
Bangkok	rain 36	Cairo	sun 32	Dubrovnik	fair 19	Jakarta	fair 32	Moscow	rain 16	Tangier	fair 24
Barcelona	rain 22	Cape Town	shower 15	Edinburgh	fair 18	Jersey	fair 19	Munich	fair 16	Tel Aviv	fair 31
						Karachi	fair 35	Nairobi	fair 27	Tokyo	shower 24
						Kuwait	sun 42	Naples	fair 22	Toronto	fair 23
						L. Angeles	sun 28	Nassau	shower 32	Vancouver	sun 19
						Las Palmas	sun 27	New York	fair 31	Venice	fair 18
						Lima	cloudy 17	Nice	fair 23	Vienna	fair 15
						Lisbon	sun 27	Nicosia	fair 30	Warsaw	shower 13
						London	fair 19	Oslo	fair 17	Washington	fair 32
						Lux.bourg	fair 16	Paris	sun 19	Wellington	shower 14
						Lyon	sun 18	Perth	fair 19	Winnipeg	rain 22
						Madeira	sun 24	Prague	cloudy 13	Zurich	fair 15